T O U R I S M

Small Ship Cruising in British Columbia

Market Demand and Product Assessment

ECONOMIC & REGIONAL DEVELOPMENT AGREEMENT

Canada

BC

SMALL SHIP CRUISING IN BRITISH COLUMBIA

MARKET DEMAND AND PRODUCT ASSESSMENT

Prepared for:

Industry, Science and Technology Canada
Ministry of Tourism
Ministry of Regional and Economic Development

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The responsibility for the content of this report is the consultant's alone, and the conclusions reached herein do not necessarily reflect the opinions of those who assisted during the course of this investigation or the federal and provincial governments which funded the study.

Industry, Science and Technology Canada
Industrie, Sciences et Technologie Canada

Province of British Columbia
Ministry of Tourism

Ministry of Regional and Economic Development

TABLE OF CONTENTS

		Page
1.0 INTRODUCTION		1-1
1.1	**Study Purpose and Methodology**	1-2
1.1.1	Product Definition	1-3
2.0	**MARKET DEMAND**	2-1
2.1	**Overall Market Research Methodology**	2-1
2.2	**Current Market Size for Small Ship Cruising**	2-3
2.3	**Small Ship Cruising Demand to Any Destination**	2-4
2.3.1	Market Profile - Small Ship Cruising Demand to Any Destination	2-5
2.3.2	High Potential Small Ship Cruise Prospects	2-7
2.4	**Demand for British Columbia Vacations**	2-10
2.4.1	Market Demand for a British Columbia Vacation	2-10
2.4.2	Market Profile - British Columbia Vacation	2-11
2.5	**Demand for Small Ship Cruising in British Columbia**	2-13
2.5.1	Market Interest in the Combination Product	2-16
2.5.2	The Overall Combination Product Segment	2-17
2.5.3	Motivations and Obstacles to a British Columbia Small Ship Cruise Vacation	2-17
2.5.4	Package Preferences	2-19
2.5.5	Determining High Potential British Columbia Small Ship Cruise Prospects	2-20
2.5.6	Market Potential - British Columbia Small Ship Prospects	2-21
2.6	**Summary and Conclusions**	2-24
3.0	**THE SMALL SHIP CRUISING PRODUCT**	3-1
3.1	**The Product**	3-3
3.1.1	Product Classification	3-3
3.1.2	Ship Capacity	3-4
3.1.3	Cruise Itinerary	3-4
3.1.4	Cruise Length	3-5
3.1.5	Pricing	3-5
3.2	**Current Markets and Marketing Techniques**	3-5
3.2.1	Market Profile	3-5
3.2.2	Marketing Techniques	3-6

			Page
	3.3	**Industry Success and Future**	3-7
		3.3.1 Industry Success and Unique Aspects for Success	3-7
		3.3.2 Future Plans and Industry Trends	3-8
		3.3.3 Industry's Comments on the Viability of the Product in British Columbia	3-9
	3.4	**Summary of Findings**	3-10
4.0		**BRITISH COLUMBIA'S COASTLINE**	4-1
	4.1	**British Columbia's Ports of Call**	4-3
		4.1.1 Berthing Facilities	4-3
		4.1.2 Port Costs	4-7
		4.1.3 Provisioning	4-9
		4.1.4 On-Shore Services	4-10
	4.2	**Gateway Port Comparison**	4-12
		4.2.1 Port Costs	4-12
		4.2.2 Suitability	4-14
		4.2.3 Services	4-15
		4.2.4 Air Access	4-15
		4.2.5 Tours and Attractions	4-15
		4.2.6 Conclusion	4-17
	4.3	**British Columbia's Marine Resources**	4-17
		4.3.1 Strait of Georgia South	4-19
		4.3.2 Strait of Georgia North	4-19
		4.3.3 Inside Passage	4-19
		4.3.4 Barkley Sound	4-20
		4.3.5 Queen Charlotte Islands	4-20
5.0		**LEGISLATIVE ENVIRONMENT**	5–1
	5.1	U.S. Legislation	5-3
		5.1.1 Leislation	5-3
		5.1.2 Possible Changes	5-5
		5.1.3 Issues	5-5
	5.2	Canadian Legislation/Regulatory Environment	5-6
		5.2.1 Overview of Legislation and Regulations	5-8
	5.3	Implications of Canadian Legislative/Regulatory Environment	5-11
		5.3.1 The 150 Overnight Berth Limit	5-12
		5.3.2 Tariff Entry Item 9801.00.00	5-13
		5.3.3 Job Reservation	5-13

6.0 OPERATING SCENARIOS 6–1

6.1 Scenario Assumptions 6-1
6.2 Scenario Comparison 6-2
6.3 Implications 6-5

7.0 ECONOMIC IMPACTS 7-1

7.1 Economic Impacts to Canada 7-1
7.2 Community Impacts 7-5

8.0 INITIATIVES TO ENCOURAGE A SMALL SHIP CRUISE INDUSTRY 8-1

ANNEX A – LEGISLATIVE ENVIRONMENT
ANNEX B – OPERATING SCENARIOS
ANNEX C – ECONOMIC IMPACT METHODOLOGY

1.0 INTRODUCTION

The cruise segment of the tourism industry has enjoyed increasing popularity in recent years as an attractive vacation experience. Global market studies commissioned by the Cruise Lines International Association point to a bright future for the industry, based on two complementary observations:

- that only 5% of the North American market has taken a cruise;
- that cruises are most popular with an older demographic group, a market segment which is increasing in size as North America's population ages.

British Columbia waters have long been an attractive cruise product -- offering a combination of urban and coastal wilderness experiences. The primary motivation for cruise industry operation in British Columbia, however, has been as an access route to Alaska. Nevertheless, this situation has secured economic benefits for the province, concentrated largely at its major ports.

The positive growth of the industry world-wide encouraged the province to examine the cruise product in British Columbia to determine where its future lies and what opportunities were available for economic development from industry growth (Cruise Ship Industry Development Strategy prepared by Don Ference & Associates Ltd.). The results of this 1988 study showed some potential for the "pocket," or more commonly referred to by industry as the small ship cruise segment. This product was described as cruises which employ smaller vessels (up to 250 passengers), are of shorter duration and would primarily cruise British Columbia's marine coastline. The study further pointed out that this potential product segment needed further refinement and analysis to fully document the market and product opportunities and constraints.

The British Columbia and Federal Governments commissioned a study to identify market demand and assess the small ship cruise product potential in British Columbia. The results of this study provide the province, both public and private sectors, with the essential tools to move the small ship cruise industry from its infancy stage to a viable product generating economic benefits to British Columbia's ports. The market and product data can provide the potential investor with key information to define their cruise product and market niche for their business plan. For the ports throughout the British Columbia coastline this document will help them address their role within the small ship cruise industry.

1.1 Study Purpose and Methodology

The purpose of the study was to:

- to provide a definitive and defensible estimate of market demand for the small ship cruise product;
- to identify the potential opportunities and constraints for developing a small ship cruise product from the perspective of the industry itself;
- to identify the potential economic benefits from the development of a small ship cruise product within B.C.

To achieve these objectives, the study methodology encompassed both market and product surveys, a review of background documentation of the small ship cruise industry in other jurisdictions and extensive interviews with government agencies.

The study was conducted in two phases. The first phase focused on the market demand for a small ship cruise product in British Columbia and the current status of the industry. The results of Phase I were positive and the study then progressed to Phase II which included a further investigation of the product and its potential for development within the province. The focus of Phase II was on the legislative environment and the viability of small ship cruising in British Columbia.

A telephone consumer survey was conducted to assess market demand. The terms of reference for the study required that three potential market areas be researched; California, Washington and British Columbia. For each of these areas a random sample of residents over the age of 25 years were surveyed. A total of 1,600 telephone interviews were completed. Data were then weighted to reflect proportionate populations of the three market areas. It is important to note that the study only focused on three geographical areas. Therefore, this report does not provide a complete estimate of market demand. In fact the demand for small ship cruising could be similar in other key regions, i.e. Alberta and Ontario.

In assessing the product, three components were considered: the small ship cruise operators; the B.C. ports of call, and the legislative environment. To obtain the current status of the industry telephone interviews were held with the major small ship cruise operators in North America and with individuals who are interested in developing the product in British Columbia. To assess the product from the port of call perspective, i.e., what do B.C. ports of call currently offer and what is required to make these ports of call attractive to the industry, detailed interviews were conducted with a selection of ports of calls. The third component of the product assessment focused on the legislative environment. Extensive interviews were held with key government representatives. In addition, a full day workshop was held with these government

representatives to discuss the legislative environment and its impact on the potential development of a small ship cruise industry in British Columbia.

A fundamental aspect of the study process was the involvement of the Steering Committee. This Committee, comprised of government, cruise industry association and ports of call representatives, provided guidance to the study team throughout the study process. The Steering Committee was also a participant at the legislative workshop.

1.1.1 Product Definition

In order to bring focus to the study a product definition was developed in consultation with the Steering Committee. The product was described to the respondents of the market survey as follows:

- A cruise vacation on a small pleasure cruise ship carrying anywhere from 50 to 250 passengers. The cruises would concentrate on a specific geographic area and would stop at various places of interest. The length of the cruise would be anywhere from 2 to 10 days. The price would include all on-board accommodation, meals and entertainment.

Not only does this definition serve to define the small ship cruise product, it also defines a potential product niche which is not yet served in British Columbia. For example, there are numerous sail or powered charter vessels with less than 25 berths but they cannot be considered as a "cruise" product of the same type as described above. In addition, there are numerous day vessels which can accommodate more than 50 passengers but which do not have live-aboard accommodation. These components of the province's marine tourism product, while important in their own right, do not fall within the product niche described by the definition above and hence are not included as part of this study.

2.0 MARKET DEMAND

The market demand component of this study forms the foundation for considering whether to proceed with market and product development initiatives for small ship cruising products in British Columbia. Without a clear definition of the size and nature of potential market demand for the product, it would be pointless for industry and the public sector to proceed. As such, the market research presented in this section is the key data source to instill confidence in industry, communities, and government to take further action.

It is in this context that a random sample survey approach was selected involving the three market areas which industry and government believe to hold highest potential. Moreover, and in keeping with the need for confidence in findings, the survey approach was structured to be as rigorous and comprehensive as possible in logically determining the most likely size and nature of the small ship cruising market. The survey approach, in addition to ensuring statistical validity through random sampling techniques, also incorporated willingness to pay measures to test the level of consumer interest expressed through the interview process.

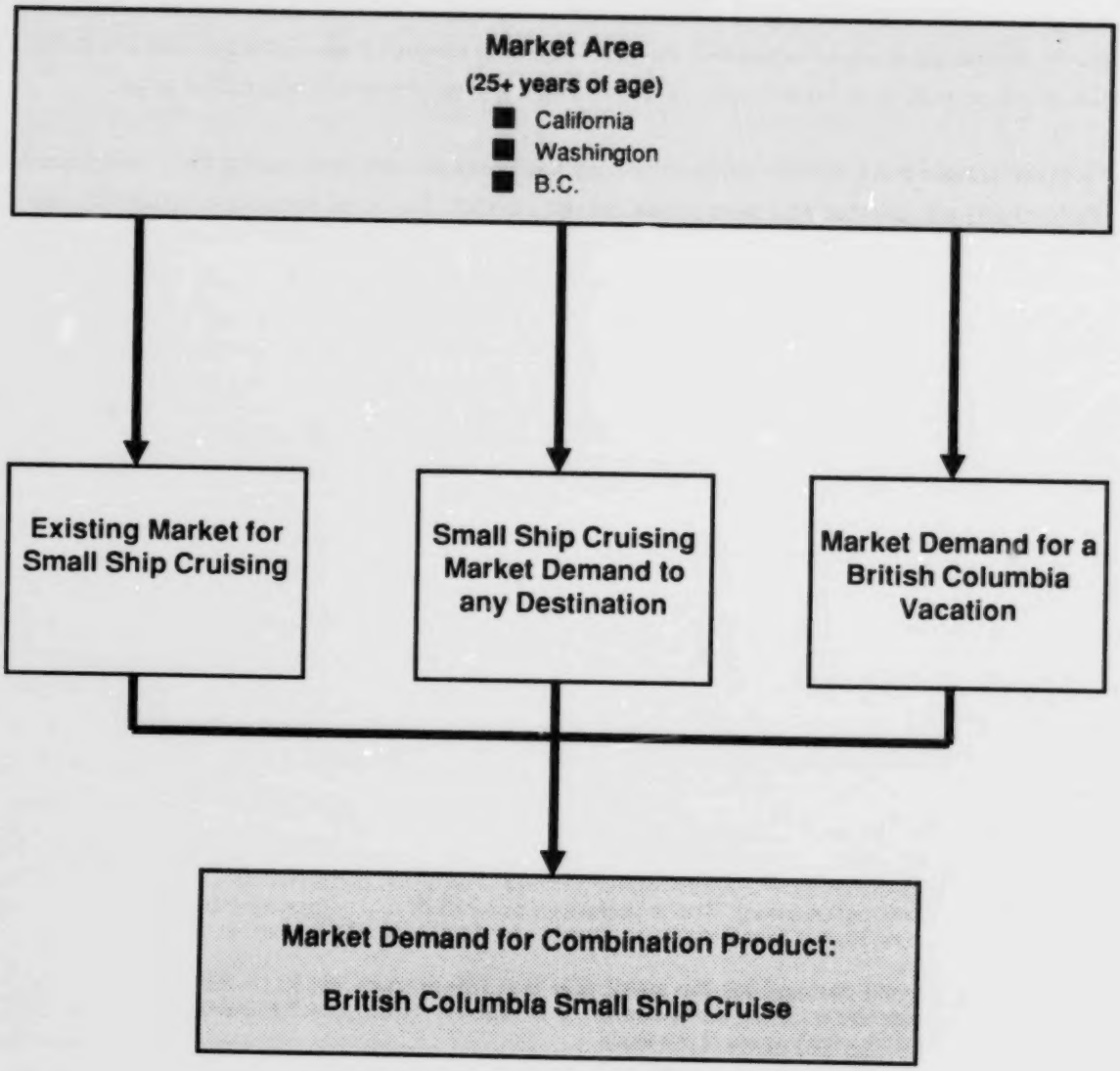
In this section, the results of the market research findings are presented in summary form. Interested readers are referred to the Technical Supplement where a full description of survey results is presented.

2.1 Overall Market Research Methodology

It is useful to describe the structure of the questionnaire and line of questioning that was used to arrive at estimates of small ship cruising demand in British Columbia. Expressed simply, it involves a technique which identifies that proportion of the total market which is interested in a "combination product" of small ship cruising and a British Columbia vacation experience. The approach is depicted in summary form in Exhibit 2.1 and includes the following components:

- **The current market**, or level of awareness concerning the small ship cruising product, determined from the total market potential (that is, the population 25+ years of age in the three market areas). This is useful as a benchmark to compare against findings related to future interest in the small ship cruising product, generally and within British Columbia.
- **Market demand for the small ship cruising product** based on the definition read to respondents during administration of the survey. This is to determine the interest for such a product anywhere in the world.
- As a parallel line of inquiry in the questionnaire, **market demand for a British Columbia vacation** product of any sort; be it a cruise, or other vacation package. This is useful for determining how British Columbia functions as a destination and generally what appeals to the market.

EXHIBIT 2.1: MARKET RESEARCH STRUCTURE


Market Area
(25+ years of age)
California
Washington
B.C.
Existing Market for Small Ship Cruising
Small Ship Cruising Market Demand to any Destination
Market Demand for a British Columbia Vacation
Market Demand for Combination Product:
British Columbia Small Ship Cruise

- **Market demand for the combination product** - small ship cruising in British Columbia, (essentially a sub-set of the above two markets); the focus of the market research.

This approach has several advantages. It provides a logical statistical progression from the total market to a small ship cruising market in British Columbia in terms of both volume and consumer types. It also enables the analyst to compare the characteristics of those interested in the target product and location with those who may be interested in either small ship cruising generally or a British Columbia vacation generally. This comparison is extremely useful to industry for:

- quantifying and profiling target markets;
- understanding the differences between the target market segments and related markets;
- providing insights into how the product can be packaged and structured to broaden its appeal (and hence improve marketability);
- determining how the product should be defined and structured;
- deciding on marketing strategies and messages.

The summary findings presented in this section follow the general structure of the survey questionnaire (Exhibit 2.1). Following that, the section concludes with an overall summary of market potential.

2.2 Current Market Size for Small Ship Cruising

Identification of current market size provides a useful benchmark to identify consumer awareness of the small ship cruising product and to compare future demand for small ship cruising product in British Columbia with current consumer capture rates.

An average of 3.4% of all respondents in the survey have "taken a cruise vacation to anywhere on a pleasure cruise ship, not a ferry boat" that has carried 50 to 250 passengers. This means that an estimated 802,700 people in California, Washington, and British Columbia have taken a small ship cruise vacation at some point in their lives.

	Have Taken 50–250 Passenger Cruise Ship	Estimated Population
Average	**3.4%**	**802,700**
California	3.7%	670,700
Washington	2.5%	73,100
British Columbia	3.0%	58,900

California residents lead the way with 3.7% of its 25+ year old population having ever taken a small ship cruise. These findings are consistent with industry statistics; most marketers consider California a hotbed of past and potential cruisers.

The statistics also allow us to estimate the penetration of the small ship cruising market within the total cruising market. The findings indicate that a minimum of 17.4% of the total current cruising market have done some of their cruising on small ships.

2.3 Small Ship Cruising Demand to Any Destination

In order to quantify future interest in small ship cruising, respondents were asked to react to their interest in taking a small ship cruise product to any destination in the next five years based on the following general product description:

> *"I'm going to describe a particular kind of cruise vacation, and this is for research purposes only. This vacation would be on a small pleasure cruise ship carrying anywhere from 50 to 250 passengers. These cruises would concentrate on a specific geographic area and would stop at various places of interest. You could choose the length of your cruise anywhere from 2 to 10 days. The price would include all onboard accommodations, meals and entertainment. Now, regardless of price, how interested would you be in taking such a cruise - to any destination - in the next five years, on a 1 to 5 scale where 1 is not at all interested and 5 is very interested?"*

It was found that over one-half (55%) of all respondents expressed interest in the product to some degree and well over one-third (37%) demonstrated strong interest. The rating results, on a one to five scale where 1 is "not at all interested" and 5 is "very interested in" indicates an overall "average" interest in the product. (a mean score of 2.8 on the product scale).

	Rating				
Level of Interest	**1**	**2**	**3**	**4**	**5**
% of Respondents	34%	11%	18%	15%	22%
Interest (Ratings 3,4,5)				**55%**	
Strong Interest (Ratings 4,5)					**37%**

These results are quite positive considering the broad population (25+ years of age) they represent.

2.3.1 Market Profile – Small Ship Cruising Demand to Any Destination

Market characteristics and preferences are important components in the product development process for small ship cruising. Those findings which are key to the product and marketing development process are summarized in Exhibit 2.2. The more important implications are that:

- there is a perception of product affordability, given that interest does not vary by household income level, once past the very low-end;
- marketing is made much easier since all three market areas show equal interest and therefore stratification may only be necessary at the message level;
- average interest (by age group) increases with a decrease in age - the opposite of industry experience with large ship cruises.

The finding regarding age is dramatic. The 65+ age group is typically associated with cruise vacations, and this market research indicates that their interest in a small ship cruise does not appear to be a priority. On the other hand, it is the 25 to 44 age group - to whom regular cruising does not usually appeal - who are most interested in the small ship concept.

It appears that destinations most competitive to a British Columbia destination are those in sunny climates. This indicates a need for British Columbia to define its own marketing niche and clearly differentiate its product. Alaska is also another popular choice for a small ship cruising destination. Unlike the sunny destinations, cruising to Alaska can be combined with a British Columbia cruise. This option in fact has the potential to increase British Columbia's market for small ship cruising.

Destinations Associated with Small Ship Cruising

Bahamas/Caribbean	42%
Mexico	28
Alaska	26
Hawaii	17
Europe	12
California	5
South Seas	4
Australia/New Zealand	4
British Columbia	**4**
South America	2
Washington	2
Asia/Orient	2
Panama Canal	2
Pacific Northwest	1

EXHIBIT 2.2: KEY FINDINGS - OVERALL SMALL SHIP CRUISING DEMAND

Overall Market Interest in Small Ship Cruising*

Size

- 55% or 12,800,000 people
- Equal interest in all three market areas
- Strong interest by 37% of population

Characteristics

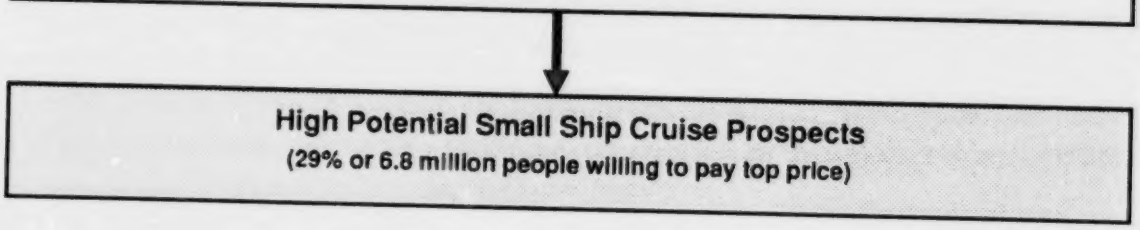
- Interest not sensitive to household income level (beyond very low-end)
- Women slightly more interested than men
- The lower the age, the higher the mean interest rating

Competitive Destinations (To B.C.)

- Sunny climates (Bahamas/Caribbean, Mexico, Hawaii)

Ship Size Appeal

- Average ship size - 173 passengers
- 46% preferred 200-250 passenger ship



Over next five years

Ship size appeal placed the average preferred passenger size at 173. However, almost one-half (46%) of those interested in small ship cruising expressed a preference to a 200 to 250 passenger size. It is noteworthy that past cruisers (of any ship size) desire a significantly larger ship than non-cruisers in this market group. Thus, it is possible for industry to consider ship size as a strategy to broaden the total cruising market.

2.3.2 High Potential Small Ship Cruise Prospects

Once broad market interest is quantified, it remains to narrow the potential market down to identify "High Potential Small Ship Cruise Prospects". This was achieved by applying willingness to pay measures to those expressing interest to identify those willing to pay the (likely) top price for the small ship cruise product. This latter group are those who have demonstrated both an interest in the product and the commitment necessary to become buyers.

Commitment is best described by the top price point in market demand studies because these are individuals, who, when spending their discretionary income, will purchase a non-essential money item like a cruise vacation. To obtain this measure of commitment, price sensitivity questions were asked of those interested in small ship cruising. Price points determined in consultation with the Steering Committee were:

$150 per day
$175 per day
$200 per day
$220 per day

These price points were then applied in the survey in a declining price point buy-off format; that is, starting by asking the respondent if they were "willing to pay" $659 (the highest price point of $220 per day) for a three-day cruise package exclusive of airfare. If "yes," they were counted as committed to the highest price point. If "no," the next lower price point (of $599 for a three-day package) was asked in the willingness to pay question. The results below distinguish between small ship cruisers interested in a British Columbia destination versus those interested in cruising elsewhere. (Each are subsets of all those interested in small ship cruising.)

Per Person Package Price	Cumulative Percent Willing to Pay Designated Price to: Elsewhere	In B.C.
$659	48%	63%
$599	58%	74%
$529	68%	78%
$449	85%	93%

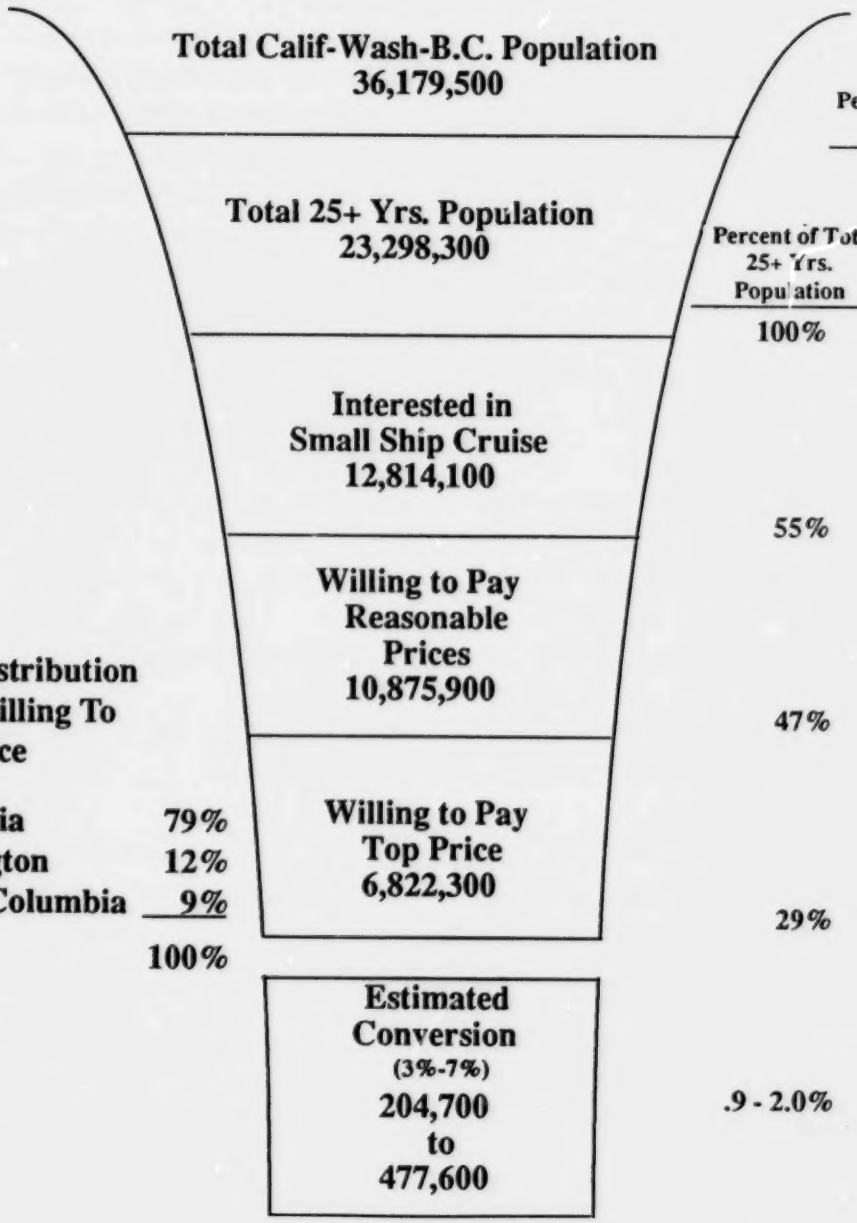
The responses indicate that the market is willing to pay a higher price for a British Columbia product than a product to elsewhere, say, the Caribbean. A total of 63% "buy off" at the highest price point for a British Columbia product compared to 48% for a small ship cruise elsewhere. Analysis of the data reveals some factors which indicate that higher-end pricing for the product is possible:

- more of those preferring smaller ships (50-150 passengers) will buy off at the top two price points (63%) than those preferring larger ships of 150-250 passengers (53%);
- non-cruisers will pay more than past cruisers;
- past B.C. visitors will pay more than those who have never taken a B.C. vacation;
- Californians are least price sensitive and Wasingtonians most price sensitive.

The High Potential Small Ship Cruise Prospects -- those willing to pay top price -- number about 6.8 million in the three market areas (see Exhibit 2.3). Not everyone of the 6.8 million High Potential Prospects will in fact buy a small ship cruise vacation in the next five years. Attrition results when other interests and other priorities capture discretionary dollars. Some estimates, however, must be made of the actual market size to assist in product development. In this case, a "conversion rate" can be used to derive actual market size estimates. The conversion rates of 3% to 7% applied in this analysis are based on standard industry rates for direct mail lists.

Application of these conservative rates places the market potential for small ship cruising to any destination at not less than about 205,000 to not more than about 488,000 over the next five years. Of course, the rate at which the High Potential Prospects (6.8 million people) convert will ultimately depend on destination and product advertising levels, national and international socio-economic events, the travel cost index and specific brand pricing.

EXHIBIT 2.3: SMALL SHIP CRUSING MARKET DEMAND (Estimated in Next Five Years)



Regional Distribution Of Those Willing To Pay Top Price

1. California	79%
2. Washington	12%
3. British Columbia	9%
	100%

2.4 Demand for British Columbia Vacations

In considering the demand for a small ship cruising vacation in British Columbia, it is useful to quantify and profile overall market demand for a British Columbia vacation. In this way, *demand for the small ship* cruising product in British Columbia can be clearly distinguished as a part of overall market demand for British Columbia as a destination.

Prior to assessing market demand, it is important to understand how British Columbia performs as a destination in the three market areas. It was found that 39.4% of all the 25+ year population have taken some kind of British Columbia vacation of one night or longer at least once in their lives.

	Have Taken Any Kind of British Columbia Vacation	**Estimated Population**
Average	**39.4%**	**9,182,000**
California	28.1%	5,161,400
Washington	76.4%	2,267,300
British Columbia	88.9%	1,753,300

Taking into account multiple visits, it was found that:

- 62% of British Columbia residents have vacationed in their province 10 or more times, compared to 20% of Washingtonians and 2% of Californians;
- the median number of vacation visits to British Columbia is 1 by Californians, 3 by Washingtonians, and 10+ by British Columbia residents.

2.4.1 Market Demand for a British Columbia Vacation

There is strong interest in British Columbia as a destination. On a 1 (not at all interested in) to 5 (very interested in) interest scale, two-thirds show positive interest and one-half show strong interest.

	Rating				
Level of Interest	**1**	**2**	**3**	**4**	**5**
% of Respondents	26%	10%	**16%**	**14%**	**34%**
Interest (Ratings 3,4,5)				**64%**	
Strong Interest (Ratings 4,5)					**48%**

The mean interest rating is 3.2, slightly above average, and quite positive considering the broad survey audience definition. Contrary to the results for small ship cruising interest, regional interest is heavily skewed, primarily by distance from the destination. British Columbia residents show a remarkable 4.2 mean interest level, followed by 3.7 for Washingtonians and 3.0 for California residents.

2.4.2 Market Profile – British Columbia Vacation

The characteristics and interests/preferences of the market interested in a British Columbia vacation are summarized in Exhibit 2.4. One of the highest interest ratings is registered by past British Columbia visitors (3.8). Age in particular seems to make a big difference in interest level. Detailed age breakdowns show a strong reverse correlation; those under the age of 55 are significantly more interested in a British Columbia vacation than those 55 and older.

Age	Interest Rating
25-34	3.3
35-44	3.3
45-54	3.3
55-64	3.0
65-74	2.9
75+	2.5

When asked the reason for their level of interest, the natural attributes of British Columbia surpass all other motivations of interested respondents by a significant margin. The natural resources of the province (scenery, mountains, etc.) are undoubtedly its strongest drawing card as mentioned by 41% of Californians, 55% of Washingtonians, and 76% of British Columbia residents. The next most frequently mentioned motivations are the people of British Columbia (17%), particularly for their friendliness, and different, European-style culture. Washingtonians, in particular, seem especially enamoured of this aspect (27%). The various attractions of British Columbia, notably Victoria and flowers/gardens, capture 13% of respondents. Again Washingtonians are most superlative about this aspect.

EXHIBIT 2.4: KEY FINDINGS - DEMAND FOR A BRITISH COLUMBIA VACATION

Overall Market Interest in a British Columbia Vacation*

Size

- 64% or 14.9 million people
- Strong interest by 48% or 11.2 million people
- Strongest interest (4.2 mean rating) by B.C. residents followed by Washington (3.7) and California (3.0)
- High interest ratings by past visitors (3.8) and High Potential B.C. Cruise Prospects (4.4)

Characteristics

- Under 55's (age) significantly more interested
- Men slightly more interested than women
- Higher incomes > ($20K) slightly more interested
- B.C. Residents somewhat more educated
- Same cruise history as average respondent

Motivations

- Natural attributes (scenery, mountains, etc.) highest at 46% of respondents
- People (friendliness, "different" culture mentioned by 17% of respondents)

Obstacles

- No interest (12%)
- Prefer other destinations (9%)

**Over next five years*

Reason for Interest	All	California	Washington	British Columbia
Positive Mentions*				
Natural Attributes	46%	41%	55%	76%
People	17%	16%	27%	10%
Attractions	13%	11%	27%	9%
Activities	9%	6%	13%	22%
Other Misc.	36%	34%	46%	44%
Negative Mentions				
Not at all interested	12%	14%	4%	--
Rather go elsewhere	7%	10%	2%	6%
Don't know about B.C.	7%	9%	2%	--

* Net responses

The obstacles to a British Columbia vacation (that is, the negatives mentioned) are largely a lack of interest, a preference for other destinations, and a lack of awareness about British Columbia (28% of respondents).

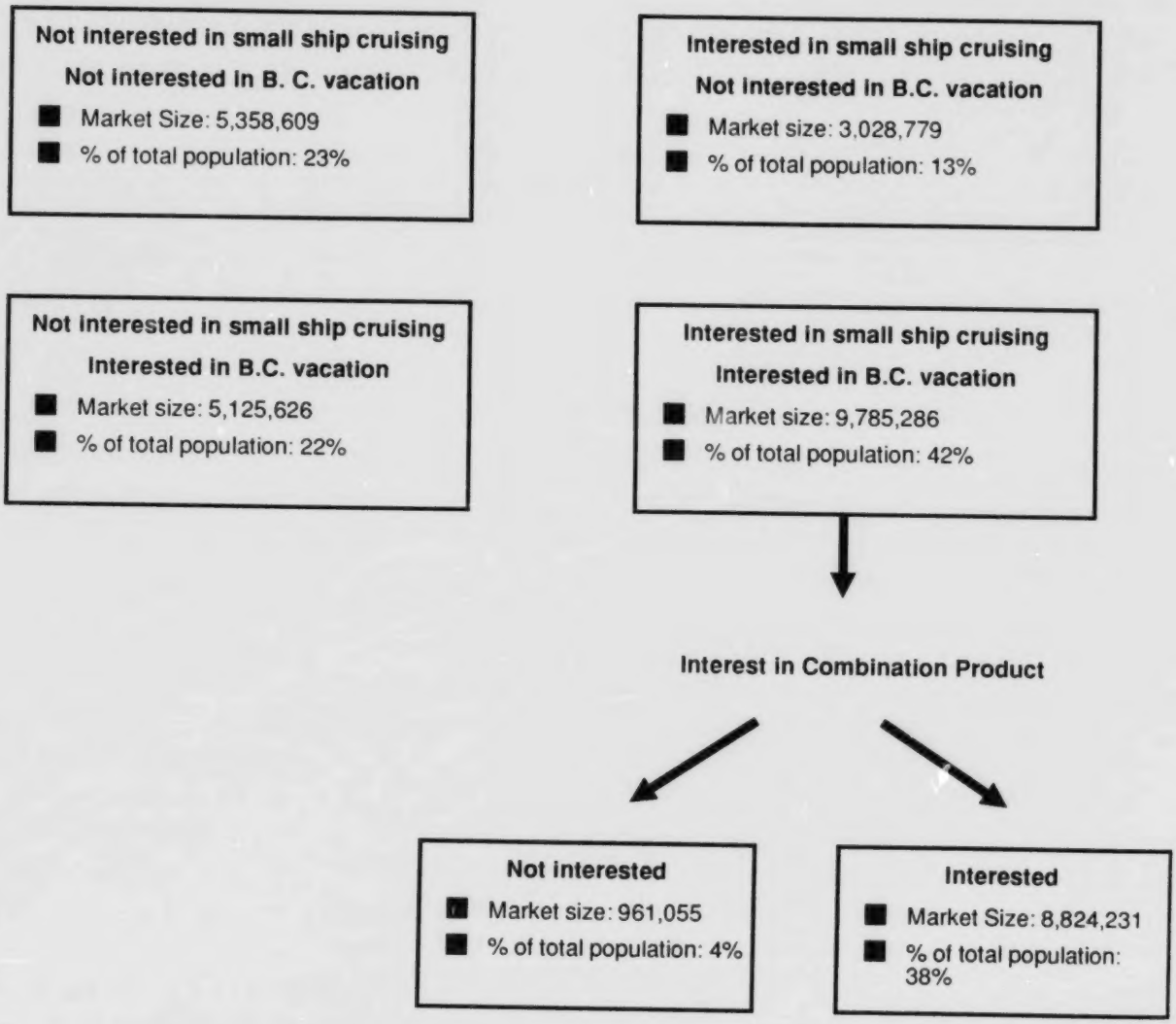
2.5 Demand for Small Ship Cruising in British Columbia

This section establishes whether the destination of British Columbia can be successfully combined with a small ship cruising product. We first examine general interest levels and the reason for those levels, various product preferences in terms of features, length, cruising months and embarkation point, followed by identification of the High Potential Prospect and their characteristics and preferences.

The combination-product survey audience is 42% of the total survey audience, that is, 42% showed an interest in both British Columbia and in small ship cruising on separate measures, as reported in Sections 2.3 and 2.4. **Only if the respondent was interested in both British Columbia and small ship cruising separately was he/she asked questions about the combination product.** If done otherwise, the responses would have misrepresented the true nature of this market.

To put that into perspective in the context of the overall population from the three market areas, Exhibit 2.5 graphically portrays the interest segments. Nearly one-quarter (23%) were neither interested in small ship cruising nor any kind of British Columbia vacation. These are either non-travellers or consumers interested in travel products completely opposed to anything that either small ship cruising or British Columbia, the destination, has to offer.

EXHIBIT 2.5: INTEREST SEGMENTS


Not interested in small ship cruising
Not interested in B. C. vacation
Market Size: 5,358,609
% of total population: 23%
Interested in small ship cruising
Not interested in B.C. vacation
Market size: 3,028,779
% of total population: 13%
Not interested in small ship cruising
Interested in B.C. vacation
Market size: 5,125,626
% of total population: 22%
Interested in small ship cruising
Interested in B.C. vacation
Market size: 9,785,286
% of total population: 42%
Interest in Combination Product
Not interested
Market size: 961,055
% of total population: 4%
Interested
Market Size: 8,824,231
% of total population: 38%

About one in eight (13%) are interested in small ship cruising but not interested in British Columbia in any way. For the individuals in this group the present image of B.C. simply does not appeal, either because what British Columbia has to offer is of no interest to them or because they don't know or are mistaken about what British Columbia has to offer. Yet they are prime prospects for the small ship cruise product. Obviously an opportunity exists within this group, especially among those ignorant of what British Columbia truly has to offer.

About 22% or 5.1 million people expressed interest in a British Columbia vacation but no interest in a small ship cruise vacation in the province. This group was asked about their interests in other types of British Columbia waterway vacations. Their responses are revealing because they produce:

- market demand information on other possible products;
- product feature information for a small ship cruising product.

Information on product feature information is important in that the closer a small ship cruise product can be perceived to one of these products, the broader the appeal will be, at least to the market segment which doesn't particularly like the definition of small ship cruising as stated in the survey.

Of these, "definite" interest was expressed by about one-half of respondents in either ferry boat trips, day cruises, shore accommodation cruises, and special activity charters. An expression of either definite or "possible" interest by this sub-set in alternative waterway vacations was cited by:

- 75% - ferry boat trip;
- 73% - day cruise;
- 57% - shore accommodations cruise;
- 62% - special activity charter;
- 45% - general boat charter.

For both "definite" and "possible" interest categories, there was little variation in preferences, that is, ferry boat trips and day cruises were generally preferred by respondents in all three market areas. Among those expressing a "definite" interest, Washingtonians showed the least preference for day cruises and special activity charters by a significant margin. On the other hand, combining "definite" and "possible" interest responses, Washingtonians showed little difference in preference levels from either California or British Columbia for the same alternative waterway vacations.

2.5.1 Market Interest in the Combination Product

Of respondents interested in a British Columbia vacation and small ship cruising separately, 9 out of 10 were also interested in **combining the two products**. On a 1 (not at all interested in) to 5 (very interested in) interest scale, two-thirds claim a strong interest while well over one-third claim the strongest interest possible.

	Rating				
Level of Interest	**1**	**2**	**3**	**4**	**5**
% of respondents*	4%	6%	26%	26%	38%
Interest (Ratings 3,4,5)				90%	
Strong Interest (Ratings 4,5)					64%

* Of those interested in a British Columbia vacation and small ship cruising separately.

The mean interest rating is 3.9, quite high, indicating that the fit of British Columbia vacations with small ship cruising seems appropriate and appealing. Interest levels amongst sub-groups show:

- virtually no difference in ratings by men and women;
- all age groups have a high interest level;
- the middle age group, 55-64 years is somewhat more interested, since this group did not show a high interest in the products separately this finding indicates that the 55-64 year olds who are interested in the separate products feel the combination is highly appropriate;
- slightly more appeal to less affluent households (less than $40,000).

This interest rating enables a differentiation of the 42% of the total population who are interested in both products **separately** into:

- those who are interested in combining the two products (that is, 90% of the 42% group or 38%);
- those who are not interested in combining the two products (that is, 10% of the 42% group or 4%).

2.5.2 The Overall Combination Product Segment

The market segment interested in a British Columbia small ship cruise constitutes 38% of the population in the three market areas or 8.8 million people. This segment was asked a number of questions related to motivations, packaging preferences, and willingness to pay to develop a comprehensive profile of their characteristics and needs and expectations. A summary of this information is provided in Exhibit 2.6 and discussed in the remainder of this section.

2.5.3 Motivations and Obstacles to a British Columbia Small Ship Cruise Vacation

Once the prospect is drawn to British Columbia and to small ship cruising in combination, the overwhelming selling point of a British Columbia small ship cruise is the size of the ship. More than two-thirds seem motivated by this aspect. The primary draw of the small size is in its perceived friendliness, mentioned by 43% (see below).

Reason for Interest*	All	California	Washington	British Columbia
Positive Mentions*				
Like small size	**68%**	**67%**	**74%**	**68%**
Friendlier	43	42	50	42
Fewer People	21	21	22	12
See scenery closer	10	8	16	24
Natural Attributes	**18%**	**15%**	**23%**	**30%**
Scenery	8	6	13	15
Water	5	5	7	5
Wildlife	3	3	3	8
Negative Mentions				
Prefer bigger ship	9%	10%	6%	6%
Rather go elsewhere	3	2	3	6

* Net responses

EXHIBIT 2.6: KEY FINDINGS - BRITISH COLUMBIA SMALL SHIP CRUISE PROSPECTS

The Overall Combination Product Segment

Size

- 38% or 8.8 million people
- 1/3 indicate strongest possible interest

Motivations

- Ship Size (68%)
- Friendlier Atmosphere (43%)
- Natural Attributes of B.C. Destination (18%)

Package Features

- 7.3 day average length
- Washingtonians prefer 3-5 day length more than do other origins
- 28% prefer 10+ days length
- Summer preferred season (70%)
- 34% would consider off-season
- 57% would consider shoulder months
- Seattle preferred for embarkation (66%)
- Vancouver popular with past cruisers
- B.C. residents prefer Vancouver, Victoria (75%)

High Potential B.C. Small Ship Cruise Prospects
(These Willing to Pay Top Price)

Size

- 21% of all respondents or 4.9 million people

Characteristics

- 77% from California, 14% from Washington and 9% from British Columbia
- Slightly younger than average

Product Features

- Itinerary/destination more important than ship features
- Most important itinerary features
  - scenery
  - wildlife
  - outdoor activities
- Most important ship features
  - rest/relaxation

Next in appeal, and related to size, is the fewer number of people and crowds than on a big ship. This is more important to the U.S. market areas than to British Columbia. However, the third most dominant aspect of size is the ability to see scenery up close and is much more important to British Columbia respondents (24%) than to U.S. markets. Small ship size is also perceived to allow for better service, fit in smaller waterways and ports, and just go to more places.

One in five respondents claim the destination's natural attributes as product motivation, rather than the ship. Not surprisingly, British Columbians (30%) demonstrated this motivation far more than U.S. residents (15% for California and 23% for Washington). Scenery is most often mentioned and it is notable that the familiarity of British Columbia residents with their own province shows in this response pattern.

2.5.4 Package Preferences

Package lengths, seasonality, and point of embarkation are all important factors for industry to consider in product development for small ship cruising.

Respondents prefer an average of 7.3 days on a small ship cruise in British Columbia, with more than one-third specifying 7 days exactly. This is lowest for Washington (6.5 days) and highest for British Columbia (7.9 days). Looking at actual preferred days for each market area, one finds:

- the total wanting 10 or more days is 28% on average and is highest for British Columbia residents at 30%;
- many more of Washington state residents prefer 3 to 5 days trips (43%) than do either Californians (29%) or British Columbians (22%);
- it appears that Washingtonian's perception is that a British Columbia cruise offers a quick, relaxing, weekend getaway opportunity.

The traditional summer months dominate seasonality preferences for a British Columbia small ship cruise (70%), especially amongst British Columbia residents (79%) who are likely more familiar with the climate. Shoulder months preferences (May and September) are encouragingly not far behind with 57% of respondents expressing an interest in these months. A surprising proportion of the respondents would consider taking a British Columbia small ship cruise vacation during the off-season (October to April). Overall, 34% of the respondents expressed interest. However, this interest lies mostly with the uninitiated (37%) Californians as opposed to the knowledgable (22%) British Columbians. These off-season cruisers fall into the same demographic groups as those who are generally attracted to off-season travel. They are younger (18 - 44 years of age), the least affluent (less than $20,000 household income), the most affluent (greater than $60,000 household income) and the most highly educated (college graduates).

Beyond these general observations, the key findings important for seasonality planning by industry are:

- that British Columbia's competition would be destinations able to offer an off-season product;
- that there is a significantly higher interest in September for British Columbia cruises (44%) versus June (34%);
- that Washingtonians prefer September much more so than do Californians or British Columbians.

For embarkation purposes, Seattle is the dominant preference (66%) although it is important to note that it is a preference of U.S. residents. British Columbia residents preferred Vancouver (58%), Victoria (17%) and Nanaimo (9%) over Seattle (5%).

Probably because of the familiarity with the Vancouver terminal, many more past cruisers cite Vancouver as their choice (29% versus the 17% average preference expressed for Vancouver by all market areas).

2.5.5 Determining High Potential British Columbia Small Ship Cruise Prospects

High Potential Small Ship Cruise Prospects for British Columbia are determined by applying willingness to pay measures to those respondents who are interested in combining the two products (small ship cruising and a British Columbia vacation) and who express commitment in paying a top price for the combination product. To obtain price commitment measures, a declining price point buy-off format was applied in the survey using the same price point range described previously (Section 2.3.2) for those interested in small ship cruises generally ($150, $175, $200 and $220 per day). Price sensitivity was identified for various package lengths as follows:

Package Length	Price Point (% Willing to Pay)*			
	High	Mid-High	Mid-Low	Low
Per Diem	$220	$200	$175	$150
3-Day	63%	74%	78%	93%
5-Day	49%	54%	63%	84%
7-Day	63%	70%	78%	89%
10-Day	56%	70%	75%	87%

*Cumulative for each package length

In reviewing these results with previous work, the results indicate that the high price point of $220 per day is low and the respondents would be willing to pay a higher price. In past surveys using willingness to pay techniques the typical range of percent respondents willing to pay top price is 40-50%. The higher percentages illustrated above indicate that the high price point could have been higher. In addition, the greatest percent "buy off" occurs at the highest price. Important implications for small ship cruising in British Columbia are that:

- three- and seven-day packages show most promise (63%) at the highest price point; however, because the three-day package is derived from a small sample size, only the seven-day package is statistically sound;
- the five-day package appears most price sensitive (49% at the highest price point);
- price sensitivity correlates with household income level;
- Californians are least price sensitive, Washingtonians and British Columbians about the same.

Collapsing all package length results to derive overall price sensitivity shows that 57% are willing to pay top price and 87% showed any willingness to pay.

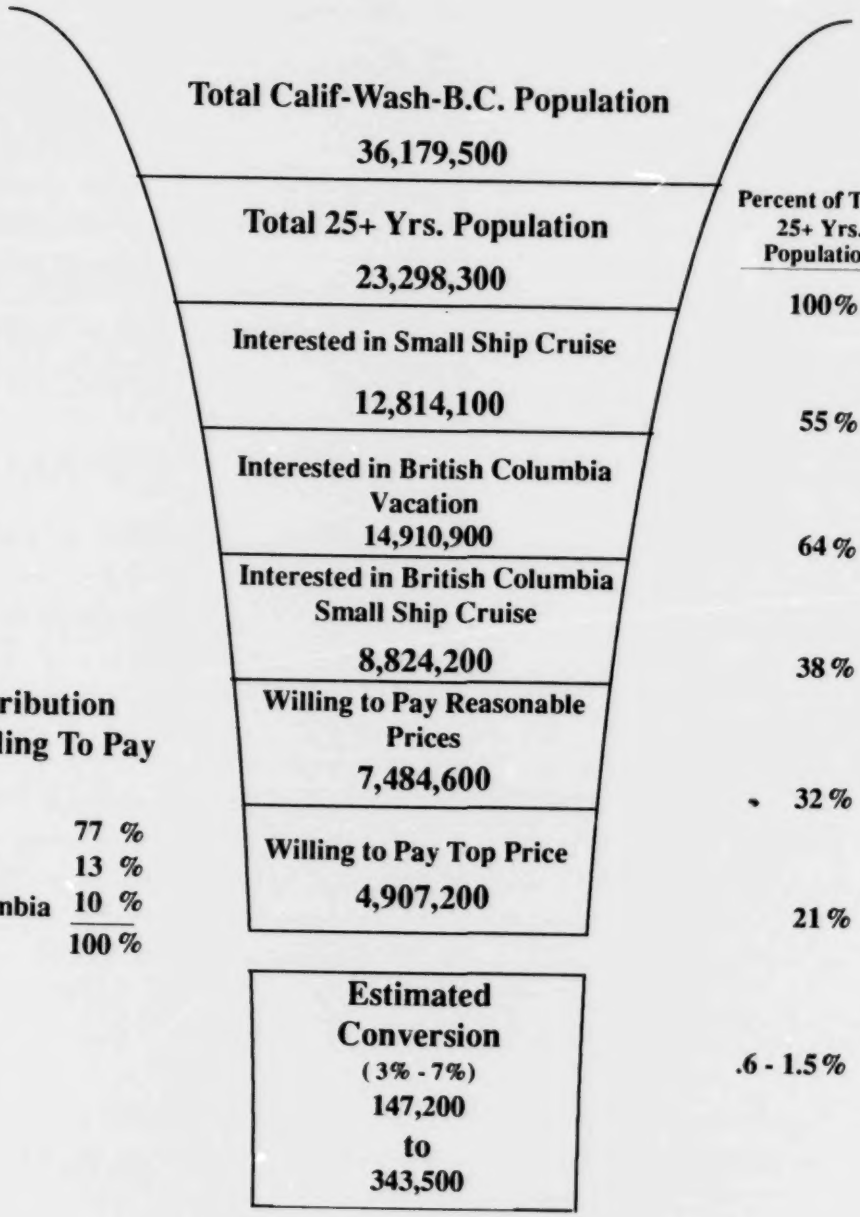
Willingness to Pay:	
Top Price	57%
Mid-High Price	9%
Mid-Low Price	7%
Low Price	14%
Total Who Will Pay	87%

High Potential Small Ship Cruise Prospects for British Columbia number 4.9 million throughout all market areas (21% of the 25+ years population). Of course, not every one of the 4.9 million will in fact buy a British Columbia small ship cruise vacation in the next 5 years. As described previously for the small ship cruising market generally, attrition results when other interests and other priorities capture discretionary dollars. The same conversion rate is applied (3% to 7%) and results in an estimated market potential at not less than about 147,000 and not more than about 344,000 over the next five years (see Exhibit 2.7).

2.5.6 Market Potential – British Columbia Small Ship Prospects

At this stage in the analysis, High Potential British Columbia Small Ship Cruise Prospects have been identified. The next step is to define the characteristics and product features for this particular market segment. (See Exhibit 2.6 for a summary of key findings).

EXHIBIT 2.7: B.C. SMALL SHIP CRUISING MARKET DEMAND
(Estimated in Next Five Years)



	Percent of Total 25+ Yrs. Population	Percent of Total Population
		100%
	100%	64%
	55 %	35 %
	64 %	41 %
	38 %	24 %
	32 %	21 %
	21 %	14 %
	.6 - 1.5 %	.4 - .9 %

Regional Distribution Of Those Willing To Pay Top Price

1. California	77 %
2. Washington	13 %
3. British Columbia	10 %
	100 %

Characteristics

British Columbia small ship cruise prospects originate from:

- California
  - 47% southern
  - 30% northern
- Washington
  - 10% western
  - 4% eastern
- British Columbia
  - 9% all from British Columbia coastal areas.

This distribution shows significant differences from the actual geographic population distribution in that there are more southern and less northern Californians and no prospects from non-coastal British Columbia regions. Demographic findings of particular interest to industry are:

- appeal to a slightly younger market;
- average education levels;
- slightly higher (but not significantly) household income;
- the same cruise history as the average respondent;
- nearly half the entire High Potential market originates from Southern California.

Product Feature Preferences

Using the 1 to 5 rating scale, the most important small ship features are:

	Rating
• rest and relaxation	4.4
• fine dining	4.3
• quality entertainment	3.9
• pampering and luxury	3.7
• a luxurious atmosphere	3.7

The most important itinerary features (a reflection of the allure of the destination) are:

	Rating
• beautiful scenery	4.7
• wildlife	4.2
• opportunity for outdoor activities	4.1
• historical and educational opportunities	4.1
• seeing many ports of call	4.0
• learning about native cultures	4.0
• visiting small communities	3.9

In comparing small ship cruise feature preferences of the British Columbia High Potential Prospects to the non British Columbia High Potential Prospects, it clearly appears that those who are interested in cruising elsewhere place more emphasis on small cruise ship features, in particular quality entertainment, pampering and luxury, luxurious atmosphere, gambling on board. Conversely, features of itinerary/destination appeal more strongly to British Columbia High Potential Prospects than to non-British Columbia High Potential Prospects. Such a finding points to a possible conclusion that the British Columbia High Potential Prospect is just that because of his/her interest in British Columbia. Thus, although the British Columbia High Potential Prospect would like some of the flavour of small ship cruising such as rest and relaxation, pampering and luxury, etc., the itinerary and destination itself seems more essential.

Market area differences do not appear to be generally important when considering small ship cruise and itinerary features. The lack of serious differences between market areas suggests that industry can streamline promotional message creation since the same set of messages will be effective, regardless of region.

2.6 Summary and Conclusions

The market research has demonstrated that there is a definite market potential for small ship cruising in British Columbia which ranges from about 147,000 to 344,000 over the next five years from the three market areas surveyed. It is important to recall that this level of demand is based only on the California, Washington, and British Columbia markets. Confidence in these results increases when one considers that:

- there are other market areas which have not been investigated;
- the market demand estimates have been derived from the "high price point"; that is, those who are interested in the product and expressed willingness to pay at the highest price offered;

- depending on package length 49-63% of the respondents were willing to pay top price, these percentages are higher than the results of previous suveys (40-50%), thus indicating that the top price of $220 per day is low and the respondents would be willing to pay a higher price;

- there is some potential to broaden product appeal to capture those interested in a British Columbia vacation but not in small ship cruising (given the level of interest these non-cruisers expressed in alternative waterway vacations).

All of these factors serve to heighten the confidence in the conclusion that there is a viable market for the British Columbia small ship cruising product.

To demonstrate, on a very preliminary basis, the relationship between these findings and a hypothetical supply capacity for small ship cruises in British Columbia, the table below shows a conservative five year demand forecast compared against a hypothetical product supply.

	High Potential Demand	Conversion Rate**	Converted High Potential Demand	Hypothetical Product Supply Capacity**	Residual
5 Year Demand	4.9 million	3% to 7%	147,000-344,000	75,000	
Demand Forecast:					
Year 1		1%	49,000	15,000	34,000
Year 2		0.5%	24,500	15,000	10,000
Year 3		0.5%	24,500	15,000	10,000
Year 4		0.5%	24,500	15,000	10,000
Year 5		0.5%	24,500	15,000	10,000

* Assumes 3% conversion over 5 years.
** Assumes three 200 passenger small ship cruisers operating 25 weeks per year in British Columbia waters and offering 7 day packages

A conservative conversion rate of 3% is applied to the five year demand forecast. Industry experience for conversion shows an estimated:

- 1% to 3% for the first year
- 2% to 4% for the remaining four years combined.

This forecast assumes a 1% conversion in year one and a 2% conversion for years two to five inclusive. Based on that conversion rate, potential demand is estimated at 49,000 for the first year and 24,500 for subsequent years.

If product supply is available through three 200 passenger small ship cruisers, there is a total passenger capacity of 15,000 for a 25 week per year, 7 day package operation. The table above shows that even using the most conservative assumptions, residual demand is available throughout the five year forecast. This example has only been used to demonstrate demand against hypothetical product supply. Whether or not such a supply capacity is feasible is an entirely different question related to analyses of capital and operating costs.

The example does, however, serve to increase the confidence that market demand over the short term is sufficient to proceed to investigate small ship cruise product development in British Columbia.

3.0 THE SMALL SHIP CRUISING PRODUCT

British Columbia's coastline is an excellent setting for a cruising destination with its spectacular scenery, numerous points of interest and wide array of marine activities. Currently in British Columbia there are hundreds of vessels which rely on these coastal resources to create a diverse cruising product. Yet none of these provide a small ship cruising product. Instead they are:

- large cruise ships en route to Alaska;
- numerous sail or power vessels with on-board accommodation -- less than 25 berths;
- larger vessels which do not provide on-board accommodation and predominately offer day tours.

The strength of British Columbia's resource base has motivated many individuals to express an interest in developing a small ship cruise product in British Columbia. In this province the small ship cruise industry is really in its infancy stages.

Outside of British Columbia, on the other hand, the small ship cruise industry does exist. It has developed throughout North America, the Caribbean and internationally. There are several companies which specialize and only offer small ship cruising. There are also companies which primarily operate large cruise ships and operate one or two small ships as well. Exhibit 3.1 lists the names of the small ship cruise lines operating in North America and the Caribbean.

The success of small ship cruising elsewhere is further incentive to investigate the province's potential. To assess British Columbia's potential to accommodate small ship cruising, a survey of existing operators was conducted. A total of 12 companies were contacted to address the following key areas:

- the current product, its features and cruising destinations;
- the existing small ship cruise markets;
- the success of the industry and its potential for growth;
- interest in British Columbia as a small ship cruise destination.

In addition, three interviews were conducted with individuals who currently do not operate a small ship cruise but who are considering investing in this product in British Columbia.

EXHIBIT 3.1 SMALL SHIP CRUISE COMPANIES

Cruise Line	Vessel Name	Capacity
American Canadian Line	Caribbean Prince	80
	New Shoreham II	72
American Cruise Line	New Orleans	140
	Savannah	140
	American	87
Clipper Cruise Line	Charleston Clipper	140
	Yorktown Clipper	138
	Nanrucket Clipper	102
	Newport Clipper	102
Cunard	Sea Goddess I	116
	Sea Goddess II	116
Delta Queen Steamboat Co.	Delta Queen	180
Epirotiki Lines	Neptune	194
Galapagos Inc.	Buccaneer	90
KD German Rine Lines	Europa	138
	Deutschland	208
	Italia	192
	Britania	210
K Lines Hellenic Cruises	Tss Orion	243
	Constellation	211
	France	202
Ocean Cruise Lines	Ocean Islander	250
P & O	Orion	243
Sea Air Holidays	Ursula II	105
Signet Cruise Line	Signet Pride	212
Society Expeditions	World Discoverer	140
	Society Explorer	100
Soviet Danube	Moldavia	170
	Dnepr	170
	Volga	170
St. Lawrence Cruises	Canadian Empress	66
Sun Line	Stella Maris	180
Thomson Vacation Canada Ltd.	Jason	160
Transocean Lines	Estonia	180
Windjammer Barefoot Cruises	Fantome	126
	Polynesia	126
	Yankee Trader	84
	Flying Cloud	80
	Mandalay	72
Windstar	Windsong	150
	Windstar	150
Renaissance Cruise Lines*		

* *Bringing new capacity on line.*

3.1 The Product

3.1.1 Product Classification

In analyzing the survey results, it became apparent that the small ship cruise product could be grouped into two distinct product categories. The first category, **'touring'**, is typically a multi-day cruise to a variety of ports. The focus of this product is the unique cruise experience offered by small ship cruising. The destination of the cruise does not play as important a role. The second category, **'destination'**, is a cruise product which focuses on a unique destination. The destinations of these vessels are often remote, exciting and exotic in nature. The product titles, 'touring' and 'destination,' were selected as a means to describe the product. The following is a general description of the two product types.

Touring Product Category

The small ship touring product is, in part, similar to that offered by the larger ships; it does, however, offer different features. The small ship cruise product offers the amenities of the large vessel delivered within the atmosphere of a luxurious yacht. The vessels are either a scaled down version of larger vessels, or unique in appearance; a paddle wheeler or sailboat, for example. The small ships often go to the same destinations as the larger ships (such as the Caribbean, Mediterranean and eastern seaboard), but they tend to avoid the larger ports of call and instead call into hidden harbours and secluded coves where the larger vessels cannot go. The ships will stop each day, offering passengers a wide variety of on-shore excursions or activities. On-board the ships are luxurious and typically have a pool and/or jacuzzi and provide evening entertainment. The type of entertainment provided is less formal and regimented than the large cruise product. Each company offers their own style of entertainment. For example:

- two of the companies operate casinos;
- one company utilizes local entertainers to create the atmosphere and culture of the cruising destination;
- several provide lectures throughout the tour on specific areas of interest.

Destination Product

The unique aspect of this product is clearly the destination. For example, the marketplace can choose from trips to the Amazon River, Antarctic, or the Galapagos. For the most part the destinations are marketed as a once in a life time experience offering unique and exotic activities. One operator described their product as a "conservation and preservation-based adventure travel company." Passengers can explore these exotic

destinations within the comfort of a luxury small ship. The tours are often activity-intensive with passengers hiking on the tundra or spending the day in zodiacs. The vessels, although luxurious, will not have 'extras' such as a pool or jacuzzi and do not provide traditional cruising entertainment. The entertainment on these cruises will have an educational focus, offering up to 3 hours a day of lectures by specialists on the culture, geography and history of the destination. The specialists will also accompany the passengers during the day as they explore the unique features of the destination.

3.1.2 Ship Capacity

Typically, small ship cruise companies operate from one to three ships. The ships range from 66 to 300 passengers. On average, the capacity of the vessels offering touring product is larger, 220 passengers and there are more companies offering this product, (66%, based on product survey) than the destination product. Therefore, more small ship cruise passengers purchase a touring product. The companies offering destination product utilize smaller vessels and serve fewer passengers (66 to 139 passengers). The passenger capacity for this product type is in part restricted by the remote destination. For example, the Galapagos Islands and Antarctic are very fragile environments and the impact of 200 people arriving en masse could damage the very environment which attracted the passengers, therefore these vessels accommodate fewer passengers.

3.1.3 Cruise Itinerary

A variety of cruise itineraries to choose from is a common feature shared by all cruise companies. Some companies offer year round cruising to specific regions such as the Caribbean, Mexico, and Orient. Other companies will alternate between destinations. In the summer, small ship cruising focuses on the less temperate locations of Europe, east coast of U.S. and Canada, and South America. In the winter the warm water destinations are popular; Caribbean and South Pacific. Alternating between summer and winter itineraries is typical of the touring product. This enables the companies to offer a variety of itineraries for their repeat clientele. Not all companies offering touring product operate on a year round basis. For example, one company operates from May to October touring the St. Lawrence Seaway.

The destination product also offers a variety of itineraries; however, the product is not as oriented to a two season itinerary. To provide variety these companies will offer annually, several destinations or offer several unique itineraries to one destination. In order to keep their clientele coming back each year, new itineraries are added each year.

3.1.4 Cruise Length

All cruise companies offer their clients a variety of cruise lengths to choose from. Cruise lengths range from 3 to 30 days. The most popular cruise lengths are 5, 7, and 14 days. The extended cruises, 21 to 30 days, are primarily cruises to remote destinations. The market demand survey indicates that the preferred small ship cruise length is on average 7.3 days. For markets closer to British Columbia, i.e., Washington, there is an interest in shorter cruises, 3 to 5 days in length. These cruise lengths are similar to what is currently offered by the small cruise ship industry.

3.1.5 Pricing

All small ship cruise trips are sold as all-inclusive packages. Advertised package prices range from $200 to $550 per person per day. Prices cluster around $300 and $500, with the mean cruise price being roughly $350 per person per day. Package prices not only vary between cruise lines, they also can vary considerably for one vessel depending on the room and deck selection. A common practice of the cruise line industry is price discounting. The operators were unwilling to provide details on the percentage of packages offered at discount rates; however, they did state that discounts are used as incentives to get clients to book well in advance. Therefore the above average price of $350 per person per day reflects the advertised price and is not a true reflection of the price due to discounting.

3.2 Current Markets and Marketing Techniques

3.2.1 Market Profile

The market profile of the small ship cruise passenger is similar in many aspects to the large ship cruise passenger. They are an older and more upscale market. However, many operators feel that although similar in profile, the small ship cruise passenger is very different in their trip preference, as they are interested in the small, not the larger cruise ships. A cruise operator typified their passenger as a "client who is of casual elegance, dislikes crowds or regimentation and is looking for relaxation."

The average age of the cruise passengers is 55 years, ranging from 40 to 65 + for different cruise companies. The age of cruise passengers is seen by operators to be a function of the cruise length and price. Older clients tend to have both the time and the money that longer cruises require. The average age is slightly younger for the Caribbean cruises. The age profile is similar for the touring and destination cruise product.

On average cruise lines attract an affluent upscale market. The more luxurious cruises appeal to the higher income passengers. Although overall the destination product attracts an upscale market, the more affluent client books every year and the less affluent client saves and books every three to four years due to the strong market interest in the exotic destinations offered by the cruise lines.

There is consensus among cruise operators that the strongest cruise market is California. Other important U.S. markets include the major east coast cities and affluent suburbs. The U.S. share of the market is as low as 75% for one company but on average is 85% for the industry. Several of the cruise lines are also attracting clients from Canada, Australia, Japan and Europe.

In general there are minimal differences in market profile between the two product types. The destination product attracts more passengers wanting a hands-on active cruise, whereas the touring product attracts passengers wanting more of a relaxed cruise. In addition, special interest groups such as bird watchers, anthropologists, naturalists, etc. are targeted for the destination product.

3.2.2 Marketing Techniques

The small ship cruise companies utilize a variety of marketing tools and spend substantial dollars on attracting new clients. Repeat visitors are mentioned as important by all companies, and for the destination product are as high as 60%. A key component of most companies' marketing campaigns are word of mouth. Although difficult to measure, most operators feel that by ensuring the passenger is happy, they are able to maintain a high word of mouth factor.

Marketing strategies for small ship cruising are very similar to those for large ship cruising. The key difference between the small and large cruise product is the magnitude of the marketing budget. The extensive marketing budgets of the large cruise ship companies allow them to utilize a wider variety of media; television, newspapers, magazines, promotional pieces, etc. For the operator who specializes in small ship cruising, the smaller marketing budget requires that they be more selective in the allocation of their marketing dollars.

According to the Cruise Line International Association (CLIA) 95% of all cruise packages are sold by travel agents. The main source of sales for small ship cruise operators is through travel agents. The operators stress that they advertise heavily to travel agents via trade magazines, and provide wholesalers with promotional material such as video tapes and brochures. Twenty-five percent of the operators mention that they maintain sales forces in certain key American cities. These sales forces work primarily with the travel

agents to promote their product. With the high proportion of bookings generated by travel agents, commissions become an important component of the business plan.

Seventy-five percent of the small ship companies advertise primarily in magazines read largely by their target markets. Magazines such as *Gourmet, Smithsonian*, and *The New Yorker are* mentioned as advertising vehicles by the luxury touring operators. *National Geographic* and specialty magazines such as *Sierra* and *National Wildlife* are included in the list by destination operators. Fifty percent of the companies find that advertising in newspaper travel sections is also an effective advertising tool. Firms also mention that they conduct an active public relations campaign, which includes inviting selected travel writers to cruise for free, and maintaining an ongoing relationship with the travel media in general. Magazine/newspaper stories in combination with the advertisement is felt to be the most effective means for this medium.

Direct mailing to past clients is also a common marketing tool. In addition to past clients 25% of the companies engage in direct mailings to very specific mailing lists. Two examples of targeted mailing lists include university alumni and affluent postal code areas.

3.3 Industry Success and Future

3.3.1 Industry Success and Unique Aspects For Success

For those operators who would provide the information all made mention of excellent load rates, ranging from 60% to 100%. Many operators feel that any new cruise product requires a major marketing effort and takes several years to become established. For one operator, it took five years to develop a clientele base before the company became viable. Although operators were unwilling to provide details of their costs of operating, a breakeven load factor of 50-60% was identified by some of the operators.

All of those interviewed attribute their success to their high quality product and/or service. The size of the ship is also an important component of the industry's success. Key features which are directly related to the small size of ship include:

- a friendly atmosphere
- small crew to passenger ratio
- luxurious exterior state rooms
- relaxing atmosphere

These features are also identified by the market survey respondents as reasons why they are interested in the small ship cruise product.

Fifty-percent of the operators specifically mention their itineraries as key to their success, including all of the destination cruise lines. New programs are regularly developed involving new destinations and/or themes, as a means of encouraging repeat business. Other success factors mentioned by one or two operators include:

- their marketing efforts;
- strong existing markets;
- the relaxed, luxurious nature of their cruise experience;
- the fact that they offer a relatively unique product (either in terms of destination or service level), and therefore face limited competition within their product niche.

3.3.2 Future Plans and Industry Trends

There are mixed feelings about the general direction of the industry. Some operators have unbridled enthusiasm (future demand for cruising being described as "virtually unlimited") and others are uncertain (with mention of several recent bankruptcies).

The operators have two options for expansion:

- adding new itineraries; or
- increasing fleet size

The most common of these options is to increase the itineraries by adding new destinations or offering a variety of experiences at one destination. As indicated previously, this practice is being employed by all of the cruise companies. Fewer of the companies are considering increasing their fleet size. Fleet expansion is very capital intensive and requires the company to be strong in both financial and marketing resources. Even those operators who were completely booked each year are cautious in choosing this option for expansion.

Nevertheless, there are a few companies interested in expanding their fleet. One high-end touring cruise company has just built a second sister ship to their first, and is considering an option on a third at the time of the interview. Another company of a similar nature has just recently bought and refitted a passenger ship, bringing their fleet to three boats.

The growth of the small ship cruise industry is in part controlled by external factors. Several operators mention the possibility of a recessionary economic time ahead. The high-end, more luxurious lines feel better buffered against this possibility, as luxury goods tend in general to be fairly recession-proof. Several operators also feel that with increasing political unrest in certain parts of the world, cruise lines have to be flexible enough to quickly reposition their destination areas, if necessary.

The small ship cruise companies themselves can have an impact on the growth of the industry. Several operators mention that younger consumers (ie. the baby-boomers entering their 40's) are developing an interest in cruising, as they acquire more disposable income. Traditionally this is not a market segment which the large ship cruise companies have targeted, however, the results of the market demand survey illustrate a high potential with this segment. One destination operator feels that more companies are looking to enter into this market niche, and this eventually will result in a more aggressive and organized marketing effort than that which has been undertaken to date.

3.3.5 Industry's Comments on the Viability of the Product in British Columbia

The majority of the operators surveyed feel there is an excellent opportunity for small ship cruising in British Columbia waters. Specifically, they mention the Inside Passage, Queen Charlotte Islands, Gulf Islands and San Juan Islands as potential itineraries. They feel that the greatest constraint to this opportunity is the market's lack of awareness of British Columbia as a cruising destination. A major long term commitment to marketing British Columbia as a cruising destination is essential to the success of the potential product. It is interesting to note that three of the companies are currently considering the west coast as a new destination.

Two of the interviewees have, in the past, offered some small ship cruising in the Queen Charlotte Islands. The first operator feels there is a need for extensive marketing and education of not only consumers, but also the travel trade. The second recommends that any cruises in this area be linked with Alaska cruises. He feels there is a market demand to cruise part-way up the B.C. coast, and continue on to Alaska. This point is substantiated by the market demand survey, where 26% of the respondents choose Alaska as a small ship cruising destination.

Additional observations on British Columbia's potential are:

- with the increase in Vancouver's popularity as a travel destination, visitors may well like to spend a portion of their holiday touring the city and a portion cruising the coast;

- by offering shorter cruise lengths, 3-5 days, the passenger who is either unfamiliar with British Columbia or small ship cruising can "test" the product out with minimal expenditure and if satisfied would become a repeat clientele;
- marketing of British Columbia should include the unique scenery, coastal communities and native culture;
- the Federal government's recent direction to taxing the cruise ship industry could have a negative impact on the industries development;
- British Columbia's inclement weather during shoulder season should not be a constraint as fjord cruises are currently being offered year round in Northern Europe.

The cruise line operators are concerned with the lack of air access to British Columbia. A key feature in establishing itineraries is to have good air connection to the embarking and disembarking ports. These ports must be able to provide air access for all of the cruise lines' major target markets.

Overall the majority of the individuals contacted were unaware of the legislative requirements to operate in Canada. The main reason, of course, is that they have yet to offer itineraries in Canadian waters. The companies deal with legislation on a case by case basis; however, they did express concerns over specific areas which can impact their cost of operations. These areas include:

- pilotage;
- requirements for immigration and employment;
- duty charges.

3.4 Summary of Findings

Within British Currently there is interest from both the ports and private sector to develop a small ship cruising product, however there has been minimal development to date. The results of the product survey demonstrate that in fact there is a viable small ship cruise industry within North America and of the companies surveyed there is a belief that British Columbia has potential to become a small ship cruising destination.

The survey illustrated that the small ship product can be divided into two product categories; touring and destination. Although both of these products are well suited for British Columbia, the touring product offers the greatest potential. The destination product requires an internationally recognized 'exotic' destination and along the coast the Queen Charlotte Islands are best suited for this product. On the other hand with British Columbia's spectacular scenery and interesting points of interest touring itineraries could be developed along the entire coastline.

In comparing the results of the market demand survey with the product survey it appears that what is currently packaged by the small ship cruise companies is well matched to the market needs and expectations. What is interesting to note is that the market survey clearly indicates a strong interest for the product in the younger age groups, however the industry as a whole targets the older age groups. These results indicate that there is a potential for the industry to move into new market areas. California is identified by the product survey as an important market segment, this finding is supported by the market demand survey. The product survey also illustrates that in addition to the three market areas included in the market demand survey additional markets such as major U.S. urban centres also have the potential to be developed for small ship cruising in British Columbia.

Competitively British Columbia is well situated. At present there is very little product offered on the west coast. During the peak season May to October, the companies position their ships either on the east coast or Europe. A small ship product offered in British Columbia would compliment the current product offerings and would not compete with these destinations as:

- an itinerary on the British Columbia coastline would be different than what is currently offered;
- British Columbia is closer to the key market area, California, than the other destinations.

The operators identified that the province's greatest constraint to developing this industry is the awareness of British Columbia as a cruising destination. This was illustrated by the market demand survey where 26% of the respondents chose Alaska as a small ship cruising destination and only 4% chose British Columbia. Clearly there will be a requirement for an effective marketing campaign to ensure the success of the industry. The high interest in Alaska as a destination can be viewed as a market opportunity for product development. By offering some itineraries which combine the British Columbia and Alaska coastline, a potential operator would then increase its appeal to the marketplace.

4.0 BRITISH COLUMBIA'S COASTLINE

Although British Columbia does not currently have a small ship cruise product, there are several factors which indicate that the potential for its development does exist. The market demand survey illustrates that there is a strong interest in the market place for small ship cruising along British Columbia's coastline. The product survey indicates that outside the province the small ship cruise product is a viable industry. The small ship cruise companies are positive in their response when asked about British Columbia's potential for development of the product. The coastline of British Columbia offers a wealth of safe harbours, natural resources, and opportunities for diverse experiences -- all features which are important in developing a small ship cruise itinerary.

In this section, the ability of British Columbia's resources, ports of call and natural features, to support small ship cruising is assessed. The intent is to extend the current data and provide a starting point for matching cruise industry requirements with British Columbia's resources.

An excellent source document for British Columbia ports and cruising destinations is available in the 1988 report, "British Columbia Ports and Cruising Destinations," prepared by Don Ference & Associates Ltd. The report provides details for 15 ports and three main cruising destinations. Although there are many more, this represents a good cross section of the province's ports of call (Exhibit 4.1). For each port discussed in the 1988 report the following information is provided:

- community description;
- tours;
- natural attractions;
- shopping/dining facilities;
- port of call contact;
- port of call facilities.

To supplement the detail provided in the 1988 report, a survey of 14 ports of call (2 were U.S. gateways) was conducted to specifically address the requirements for small ship cruising. The following criteria were used to select the 14 ports of call:

- geography - ports of call selected from locations throughout the coastline;
- size - small to large port of call;
- berthing facilities - ports of call represent full range of facilities.

EXHIBIT 4.1: A SELECTION OF BRITISH COLUMBIA'S PORTS OF CALL

The list of sample ports was finalized in consultation with the Steering Committee. The information in this section is intended to complement the general cruise sector perspective of the above report with information on the needs and requirements of the small ship cruise industry relating to both British Columbia's ports of call and marine resources.

4.1 British Columbia's Ports of Call

The province's coastline is dotted with both large and small ports of call. Each port varies as to what it can offer for the small ship cruise vessel and for the passengers. The province's ports of call can be divided into two very broad categories based on the size, and type of facilities and services offered:

- **'Major'** - typically commercial port, offers several berthage options and a complete range of services, the port supports a well populated area. These ports typically have a port authority to manage the port activities;
- **'Minor'** - typically the port only has one area for berthage, many can not accommodate a small cruise ship and lightering is required, there are servicing limitations and these ports are located in smaller communities. These ports do not have port authorities and the wharves are typically under the government jurisdiction.

4.1.1 Berthing Facilities

Small ship cruise itineraries typically include one port of call each day. Often the port of call is used as an overnight stop for the comfort of the passengers. Therefore, an important feature required by the small ships entering these harbours is berthage. The berthing requirements of the small cruise ship industry are minimal in comparison to the large cruise ships. With the smaller vessels deepwater ports and extensive wharves are not required, and fewer passengers disembark at any one time. In fact most ships are capable of anchoring and off-loading passengers in areas where there are no berthing facilities at all. Several ships have bow ramps to off-load passengers onto beaches or they use smaller craft to transport passengers to shore (lightering). Therefore, the majority of British Columbia's ports or harbours could physically handle any of the small ships.

On the other hand, operational considerations are a concern, particularly during the peak boating season. During the months of June through to September availability for moorage is limited as the demand is very high in most ports of call. The majority of the province's ports of call are small and typically the only moorage space available is a government wharf. For these locations service is minimal and berthing space is not reserved for transient vessels such as small cruise ships. The larger ports of call are capable of providing several different berthing facilities; both private and government wharves.

The ability of the survey sample to accommodate the small ship cruise industry varies by category (Exhibit 4.2). The majority of the ports of call contacted were not familiar with the berthage requirements of small cruise vessels as they either do not deal with passenger vessels or only deal with the larger cruise ships. As indicated in Exhibit 4.2 the major ports of call can easily service the small cruise vessel. The minor ports of call on the other hand are limited in their suitability for berthage. Vessels stopping in many of these minor ports of call will be required to anchor in the harbour and transport their passengers to shore (lightering). However this is not a problem with the small cruise vessel as they are equipped and designed for these situations. For those ports of call which do provide berthage most offer wharf facilities which will be shared with other commercial users. In these cases the cruise operator would then be concerned for the safety of their passengers around other commercial users. Availability is also a very important consideration of the cruise operator in selecting ports of call. Again for most ports the cruise vessels would be competing for berthage space with other commercial users. Often the priority is given to to the commercial users. To accommodate the small cruise vessel most ports of call would allow the companies to book reservations to guarantee berthage space. As indicated in Exhibit 4.2 even a portion of the minor ports of call allow for reservations.

Other berthage features which need to be considered include the location and quality of the facility. With respect to location of the wharf cruise companies are seeking facilities which are protected from inclement weather or tidal movement. For most major ports this is not a concern however for the minor ports the ability to provide safe shelter can be a concern. A second consideration is the quality of the facilities. Are they maintained or rundown? Are they safe for passengers disembarking? These are just two areas the cruise operators will be researching when they select a port of call.

Historically the harbours along the coastline were developed to serve the commercial shipping and fishing industries. With the increase in popularity of the recreational boating industry, changes are taking place in several of the coastal harbours. Many communities are now reassessing their waterfront to address the potential for tourism. Waterfront development projects are occurring throughout the coastline, for example:

- Nanaimo has developed a system of walkways which take the pedestrian past the bustle of the commercial docks and the small marinas;
- Campbell River has built a fishing pier;
- Port Alberni has a waterfront park development.

EXHIBIT 4.2 FEATURES FOR A SAMPLE OF B.C. PORTS OF CALL

PORT	SUITABILITY	AVAILABILITY	RESERVATIONS
Major Ports			
Vancouver	Can accommodate several large and small vessels at one time	During peak times facilities very busy, however, space could be available	Yes, required in advance
North Fraser	Only limit is draft of 15 feet. Height 67' (low low water)	Good Users-dormitory, recreational	Yes good
Nanaimo	4 deep sea docks with a depth of 44 feet, possibly not suited to passenger vessels	Users-cargo vessels availability not guaranteed	Priority cargo vessels
	Marina - floating mooring max. 110 ft length/ 20ft draft	Commercial and recreation	Yes
	Proposed new facility 2 berths - approx. 500ft oriented to passenger vessels. 2 berths - approx. 500 ft		
Campbell River	375 ft long dock Size limit 150 feet	Users recreational/ advance notice required	Yes, required in advance
	Proposed new facility oriented to large cruise vessels		
	151m length/draft 13m		
Prince Rupert	Lightering dock for cruise vessels	Commercial vessels utilize dock facilities	Yes
		Cruise vessels lighter	

Source: Survey of sample of British Columbia ports of call, 1990

EXHIBIT 4.2 FEATURES FOR A SAMPLE OF B.C. PORTS OF CALL (cont'd)

PORT	SUITABILITY	AVAILABILITY	RESERVATIONS
Port Alberni	"Panamax" vessels berthed-commercial wharf but P. Alberni feels this can be accommodated	Specific berth would be reserved	Yes
Minor Ports			
Ganges	Vessels from 100 -200 ft long & 20 ft depth/services	Good, Low usage	Yes
Alert Bay	Dock 200 ft length 35 ft depth. Can only accommodate 1-3 vessels at a time	Good, Users-recreational	Yes
Stewart	Dock 300 ft length/35 ft depth/lack of services	Users-some logging & Alaska state ferry (1-week)	Yes
Queen Charlotte City	Dock 120 ft length/ depth unknown/ poor weather conditions	Users-fishing, recreation, & logging	No, fishing & loggers priorities
Masset	Dock 220 ft length/ depth 26 ft/ poor weather conditions	Good Low usage	No wharf authority
Tofino	232 ft vessel w/ depth of 25-45 ft	Summer months busy Recreational odd freight & gov't vessel	Yes

Source: Survey of sample of British Columbia ports of call, 1990

Similar wharf upgradings, walkways, planters, parks, fishing piers are being constructed in communities along the coast. These communities are also realizing that each waterfront should not look the same and are developing distinctive themes for their waterfronts. The end result is a collection of unique harbours along the coastline which are attractive to the small ship cruise industry. In particular, it is the variety of themes which can be packaged in a small ship cruise itinerary that is of interest to operators.

4.1.2 Port Costs

An important consideration for the cruise operators in preparing itineraries is port costs. While the small ship cruise industry offers opportunities for communities to generate port revenues, charges which are not competitive can work against a community. It is important that the port costs be reasonable and the ship receives value for money.

Small ship cruise vessels face port costs such as harbour dues, berthage, passenger fees, service costs and in some instances stevedoring. Each are subject to specific fee structures. Of the ports of call surveyed, cost structures not only varied by cost but also by costing structure (Exhibit 4.3). The major ports have well established fee structures as these ports primarily deal with commercial vessels. On the other hand, the minor ports of call charge the government standard costs regardless if the vessel is commercial or private. For many of the minor ports of call they work on an honour system as the wharves are not staffed.

Cost scenarios for 100 and 250 passenger vessels for a selection of the major ports were estimated (Exhibit 4.4). The following assumptions were used to calculate these costs:

- a minimum stay of 12 hours;
- 100 passenger vessel estimated at 700 GRT or 61 m (200 ft.);
- 250 passenger vessel estimated at 6000 GRT or 107 m (350 ft.);
- cost scenarios include berthage, harbour dues and passenger fees.

This exhibit clearly illustrates the wide variance in costs which the operators face in selecting ports of call. However it is important to note that while Vancouver and Prince Rupert are the most expensive, ports such as Nanaimo and North Fraser have yet to establish passenger fees, and may do so in the future.

For the minor ports of call, total costs do not vary between ports as these ports are subject to the standard Government Wharves and Regulations fee structure. For 100 passenger vessels the costs would be $340 and for a 250 passenger vessel $820.

EXHIBIT 4.3 SAMPLE PORT COST STRUCTURE

PORT	HARBOUR DUES	BERTHAGE	HEAD TAX
Major Ports			
Vancouver	$.062/GRT for first five visits/yr.	17.65/m min 12/hrs	$8.30 (departure) $8.30 (arrival) $1 (security)
North Fraser	$.04/NRT for first 5 visits/yr.	None	None to-date
Nanaimo	$.04/GRT for first 5 visits/yr.	$100 < 122 ft $150 ≥ 122 ft	None to-date
Campbell River	none	$.70/ft/day	None
Prince Rupert	$.0693/GRT for first 5 visits/yr	$1.18/m for 8hrs with min $212/8 hrs	$4.71/adult $2.35/child
Port Alberni	Waivered	Waivered	Waivered
Minor Ports			
Ganges	none	.60/m min $9.20	$3
Alert Bay	none	.60/m min $9.20	$3
Stewart*	none	.60/m min $9.20	$3
QCC*	none	.60/m min $9.20	$3
Masset*	none	.60/m min $9.20	$3
Tofino*	none	.60/m min $9.20	$3

* These ports are subject to Transport Canada fees, but due to low usage they are paid on an honour system by remitting the charges to head office.

Note: The Transport Canada fees listed and the fees collected, are sometimes inconsistent.

EXHIBIT 4.4: MAJOR SAMPLE PORTS: COST SCENARIOS*

Port	100 Berths	250 Berths
Vancouver	$2,900	$6,600
Prince Rupert	$730	$1,900
Nanaimo	$180	$390
North Fraser	$23	$190

* cost estimates are based on assumptions discussed in Section 4.1.2.

Stevedoring is another cost which can impact the overall operational cost. In British Columbia all longshoremen fall under the B.C. Maritime Employers Association rate structure and if stevedoring is applied rates are consistent throughout the province. The overall cost for loading and unloading goods for four hours with the use of three longshoremen is estimated to be $1900. Not all ports charge for stevedoring and not all ports are union and therefore the costs do vary from this estimate.

4.1.3 Provisioning

Cruise ships require provisioning of fuel, water, food and supplies. They also require the facilities to off-load garbage. Often if a company assigns a ship to a specific area over a period of time it will establish local suppliers for provisioning. In the case of the larger vessels, the suppliers tend to be restricted to the cities such as Vancouver which can handle large orders, i.e., food for 1,200 passengers. With the smaller ships, on the other hand, the company does not have to restrict itself to large cities for provisioning. Therefore there are more opportunities with the small cruise industry to generate local economic benefits.

The small cruise ship companies try to create an on-board atmosphere for their passengers related to the local culture and destination. A favoured option for the operators is to serve local foods. This requires local provisioning and could mean opportunities for local suppliers to provide fresh food daily to the ships. In fact, several of the ports along the coastline could easily provide fresh food for 250 passengers. For example, one port could provide salmon, another crab, and so on.

In addition to food, the ships need water and fuel. Although the ships are built with large holding tanks which enables them to travel for more than one day before provisioning, these items are required at some point during the cruise. Therefore, not all ports of call would need to provide fuel and water. Off-loading of garbage is also required and cruise companies need ports along the route to take garbage. Typically a handling fee is charged or it is included in the harbour fee. Within B.C. the major ports of call can provide these operating services, the majority of the minor ports cannot. An important aspect of the ports is that as one travels south to north, the major ports which provide these operating services are located throughout and not concentrated in a specific area. The distribution of the major and minor ports of call throughout the coast offers the industry the opportunity to create interesting itinerary while minimizing operational problems associated with provisioning and emergency servicing.

4.1.4 On–Shore Services

The results of the market demand survey clearly indicate that there is need for on-shore excursions. The top important itinerary features identified by the High Potential British Columbia Prospects include:

- beautiful scenery;
- wildlife;
- opportunity for outdoor activities;
- historical and educational opportunities;
- seeing many ports of call;
- learning about native cultures;
- visiting small communities.

All of these features are available within British Columbia. In addition it is possible to develop cruise itineraries which focus on a specific theme, i.e., native culture, or which combine a variety of these features.

Communities committed to attracting the small cruise ship industry have the potential to diversify and strengthen their tourism sectors. The cruise companies require activities and attractions for their passengers while in port. These on-shore services can either be sold to the ship as ground tours or they can be sold to individual passengers. The activities/attractions could include fishing trips, hiking trips, cultural tours, boat rentals, bike rentals, walking tours, scuba diving, nature tours, museums, and industrial tours. In addition, communities could promote local entertainment such as native dancers or singers who could entertain on-board or on-shore for the passengers.

Local communities could also provide tours to nearby natural or cultural features. Tours could be developed which include an experienced guide and transportation to a unique site located outside of the community. One such example is a cultural tour which provides the passenger with an opportunity to visit a variety of native sites under the guidance of a local native person. The communities not only benefit financially from this type of arrangement, but they also have some assurance that the proper protection of any sensitive sites is provided by the local guide and that accurate and authentic information is being given.

A community may offer several activities and attractions but it may not be a viable port of call for a small cruise ship. Several factors are important to consider if a community is interested in becoming a port of call:

- the ideal port of call is one in which the on-shore services and attractions are in keeping with the overall quality level which the industry sells, the ships are, for the most part, selling a very high level of product and the on-shore services should reflect this;
- on-shore services should have high standards of service and cleanliness;
- services need strict coordination with the cruise itinerary schedule, for example, if a cruise ship arrives in a community on a Sunday and the passengers are expecting to visit the local museum, it should be opened even if it normally closes on Sundays;
- tours should be coordinated to start when the ship arrives and return the passengers within enough time to allow them to casually board the ship;
- reliable ground operators are essential to the small ship cruise companies, given the itinerary emphasis on on-shore activities and attractions.

Not all passengers will pay for a shore excursion. Some may stay on board, others may disembark for only an hour or so, and others will spend the whole time exploring on their own. The ideal port is one which has areas for passengers to walk on their own and feel safe. It should also have a shopping area for passengers to wander through. Park areas are also popular either on the waterfront or inland. The key features are clean safe areas for passengers to explore.

A component of the survey of British Columbia ports was to assess the ports' ability to provide on-shore activities for the small ship cruise industry. All of the ports contacted do offer a wide range of on-shore activities. Unique shopping such as art galleries, gift shops and native art are offered in all of the communities. Attractions from wildlife viewing to historical tours were offered by either the communities or private tour operators. These ranged in price from an exclusive helicopter excursion in the four hundred dollar per person range to free walking tours.

One area which the minor ports, and several of the major ports, are lacking is a centralized information source for the cruise operators to contact in preparing itineraries. In some cases the Chamber of Commerce or Tourist Bureau provided excellent information, while other times they were unable to provide the required information. If a central information source was available at the port of call which provided information on on-shore activities and services, it would assist the cruise line operation in preparing itineraries.

4.2 Gateway Port Comparison

This section examines U.S. and Canadian ports, comparing two pairs of ports: Greater Vancouver with Bellingham; and Prince Rupert with Ketchikan. There is no simple formula for choosing gateway ports. Operators are concerned with a variety of factors when they select a gateway, for example:

- port costs;
- facility suitability;
- port services;
- air access; and
- tour attractions.

For each of the four ports these factors have been compared. Operators when choosing a gateway port will also consider the specific itinerary and logistics. As the itineraries vary considerably between vessels, logistics was not a factor considered for the comparison. In fact it was assumed that by comparing Greater Vancouver with Bellingham and Prince Rupert with Ketchikan that logistics would not be a factor due to the proximity of the two ports to each other.

4.2.1 Port Costs

Costs for gateway ports were calculated using the same assumptions as in section 4.2.2 (Exhibit 4.5). In this instance however, stevedoring costs were also included. Stevedoring is given as a lump sum where applicable, although elaborate pricing systems and the fact that it is often negotiable, will make actual stevedoring costs vary from operation to operation.

Presently in Ketchikan there are no passenger fees but a municipal $2.00 head tax might be levied in the future. There is also a bill pending in congress (HR 3299) that could create a mandatory $3.00 head tax for all U.S. ports.

EXHIBIT 4.5: SAMPLE GATEWAY PORTS: COST STRUCTURE

Port	Harbour Dues	Berthage	Head Tax	Stevedoring*
Vancouver (Canada Place)	$.062/GRT for first 5 visits/yr.	$17.65/m (min 12 hrs)	Arrival $8.30 Depart $8.30 Security $1.00	$1,900
North Fraser (Bridgepoint)	$.04/NRT for first 5 visits/yr.	none	none (to date)	none
Bellingham	none	<100' $50/hr** 101'-200' $100/hr 201'-300' $150/hr 301'-400' $250/hr 401+ $350/hr	$7/person round trip $4/person one way seniors/child 1/2 price	none
Prince Rupert	$.0693/GRT for first 5 visits/yr.	$1.18/m for 8/hrs min $212/8 hr period	$4.71/adult $2.35/child	$1,900
Ketchican	none	<100' $.28/ft/day 100'-149'-.45 150'-199'-.62 200'-299'-.72 300'-399'-1.00 400'-499'-1.29 500'+ 1.62	none	$1,000

* Stevedoring is given as a lump sum due to the elaborate fee structure and the fact that fees were sometimes negotiable. The lump sums were estimated by calculating four hours labour, with three workers for unloading and loading and including typing up and letting go fees.

** Proposed tariff for cruise vessels at Bellingham.

The North Fraser Harbour Commission currently does not charge a passenger fee but would consider putting one in place if small ship cruise vessels began using the facilities on a regular basis. Exhibit 4.6 displays the variance in port costs between U.S. and B.C. ports. Costs are in Canadian dollars (at $0.85 U.S.).

EXHIBIT 4.6: GATEWAY PORTS COST SCENARIOS

	Port of Vancouver	North Fraser	Port of Bellingham
100 Berths	$4,726	$ 23	$1,900
250 Berths	$8,486	$192	$4,750

	Prince Rupert	Ketchican
100 Berths	$2,600	$1,144
250 Berths	$3,746	$1,350

Note:Costs include harbour dues, berthage, passenger fees and change stevedoring for a 12 hour stay, using the highest costs quoted. 100 Berth vessels are assumed to be 700 GRT and 200 ft. or 61 meters length. 250 Berth vessels are assumed to be 6,000 GRT and 350 ft. or 107 meters length. For Vancouver cost estimates are for the Port of Vancouver Cruise Ship terminal.

4.2.2 Suitability

All of the four ports have the capacity to accommodate both a 100 and a 250 berth vessel (Exhibit 4.7). Prince Rupert accommodates larger 250 berth vessels on a lightering dock (this may be inconvenient for loading and unloading supplies but was specifically built for cruise vessel passengers).

The availability of berthage is less clear. In the case of Ketchikan and Prince Rupert, reservations can be made and in Ketchikan a specific berth reserved. For Bellingham and Vancouver, availability is a problem. Although Bellingham's port charges are similar to the other ports (assumed to be for a minimum 12 hour layover) the port feels that a cruise ship could only stay for a maximum of 6 hours as the Alaska ferry has priority. Vancouver also has limited availability in the Port of Vancouver itself. During the summer the small ship cruise vessels would compete with the larger Alaska cruise vessels for Canada Place but other facilities are available. The Port of Vancouver will only make reservations when a business plan is submitted and a contract negotiated with specific operators. However a number of other locations exist near the Port of Vancouver including North Fraser's new Bridge Point facility, Granville Island and a number of other locations.

4.2.3 Services

Gateway ports require more than just the basic fuel, water and garbage removal needed in a port of call. Gateways also need companies to provide provisioning and minor ship repair. Ketchikan has more repair, garbage removal and fuel services than Prince Rupert. Prince Rupert has limited repair services and fuel requirements must be radioed in advance. In the past operators using the harbour have brought in fuel barges to refuel throughout their season.

At the southern gateway ports, Greater Vancouver and Bellingham, all services are available except at Bridge Point in the North Fraser which lacks water, electrical or garbage removal. This is not considered to be an obstacle by the North Fraser Harbour Commission as vessels requiring these services in the future could be accommodated.

4.2.4 Air Access

Gateway ports require good international air links. The ports compared have similar services. Ketchikan and Prince Rupert both have smaller scale airports but facilities could easily accommodate 250 potential passengers and offer scheduled flights which connect to international airports. Both Vancouver and Bellingham have international airports (although Bellingham's is much smaller, this is not likely to be an issue for the number of passengers being considered). Air service in the U.S. is normally considered less expensive than in Canada. However a review of air travel costs illustrates that air fares are comparable between eastern Canada/U.S. and Bellingham/Greater Vancouver. Prices from Seattle to Prince Rupert are 56-66% less expensive than to Ketchikan. Past deregulations in the U.S. did lower prices considerably however, as U.S. carriers faced declining margins and bankruptcy, their prices have risen and Canadian prices have been dropping in recent years.

4.2.5 Tours and Attractions

Both Greater Vancouver and Bellingham offer similar types of attractions but Greater Vancouver offers more variety, quality and number of attractions. Both Prince Rupert and Ketchikan offer a similar variety and number of attractions. Market recognition of these features and attractions is greater for Vancouver and Ketchikan than Bellingham and Prince Rupert.

EXHIBIT 4.7: SUITABILITY

	Capacity	Quality	Availability	Reservation
Ketchikan	vessels from 90 to 801 ft.	good	recreational, fishing, cruise and freight users so facilities often full but expect they could accommodate	yes
Prince Rupert	-151 m Ocean Dock with 5000 ton displacement limit and no truck access	poor	recreational, and occasional naval vessels but availability good	yes
Bellingham	450 ft. dock	new facility	Port facilities shared when ferry is loading	Yes
Greater Vanc.	excellent capacity at several locations	new facility and several older facilities	competition for space	only reserve if contract negotiated
N. Fraser	Bridgepoint has capacity only limit is 15 ft. draft	new facility	dormitory recreational users but availability is good	yes

Source: Telephone Interviews, 1990

Generally both Canadian and U.S. ports offer ample attractions and tours for half day to one day stop-overs. These attractions include an assortment of price ranges. Both Ketchikan and Prince Rupert are well matched in terms of things to do and places to see. The only constraint would be the port's ability to accommodate a large number of tourists over a short period of time. This could be a problem if tourists from other sources are arriving at the same time as small ship cruise passengers. In southern ports this is not likely to be a problem.

4.2.6 Conclusion

Exhibit 4.8 summarizes the gateway port comparison. While Prince Rupert would not likely be chosen over Ketchikan for economic reasons alone, flag registry could further restrict desirability. North Fraser may be chosen over Bellingham for economic reasons, but again flag registry could offset commercial considerations. The port of Vancouver costs are high (port charges and stevedoring costs) and competition for space at the port of Vancouver is limited during peak months.

If flag registry is not an issue, Greater Vancouver would likely be favoured over Bellingham because of its greater international market recognition, better air connections and variety of attractions. Ketchikan would likely be favoured over Prince Rupert because of its greater international market recognition, more marine services, better quality berthage and lower berthage costs.

Port charges are not likely to be the deciding factor in choosing a gateway port. More important factors may be the vessel duty or labour cost savings that could come from the U.S. gateway port, as discussed further in the review of legislation and operating scenarios (Section 5.0).

4.3 British Columbia's Marine Resources

Cruising British Columbia's coastline includes more than the ports of call. It also includes the diversity of natural, cultural and historical resources which make an attractive small ship cruising itinerary. By combining these resources, small ship cruise operators are able to develop cruise itineraries which enable the passenger to learn more about the destination and to participate in activities.

EXHIBIT 4.8: GATEWAY PORT COMPARISON SUMMARY

	Greater Vancouver (pop. 1,166,700) Bellingham (pop. 50,000)	Prince Rupert (pop. 15,700) Ketchikan (pop. 7,500)
Port Costs (typical 12 hour stayover)	Vancouver 2 times more expensive but North Fraser 25 to 80 times less expensive than Bellingham. As well, Greater Vancouver has a wider variety of facilities than Bellingham.	Prince Rupert 2-3 times more expensive than Ketchikan.
Services	Greater Vancouver has wider variety of services than Bellingham, but both adequate.	Ketchikan has more repair, fuel and other marine services than Prince Rupert.
Suitability	All have new facilities but the vessels would compete for space with ferries in Bellingham and with larger Alaska cruise vessels at Canada Place.	Prince Rupert dock is lower quality and has no truck access. Ketchikan good.
Air Access	Both have International Airports. Bellingham's much smaller facility (25 departures per day). Airfare prices comparable.	Both have similar smaller airports (5-7 departures per day). Prices to Prince Rupert 56-66% cheaper than to Ketchikan. Both offer scheduled flights to international airports.
Tours & Attractions	Both have similar types of attractions, although Greater Vancouver has greater variety, number of attractions and greater international market recognition.	Both have similar variety and number of attractions, however, Ketchikan has greater quality, and international market recognition.

British Columbia's coastline is also unique. As one travels north the scenery changes. From Victoria to Prince Rupert the coastline can be divided into distinct areas which could be developed into 3-5 day cruises. In addition, itineraries can be developed which combine one or more of these areas to form 5-7 day tours. Each of these areas, illustrated in Exhibit 4.9, includes major communities which can provide air service back to Vancouver as well as ship provisions.

4.3.1 Strait of Georgia South

Victoria to Nanaimo including the Gulf Islands, Vancouver and the Sunshine Coast are the most populated areas of the province's coastline. These areas have many small communities and large urban areas which create excellent opportunities for stops of interest. The combination of development and natural shorelines create interesting areas for cruising. On-shore facilities and services are numerous and the Gulf Islands in particular are a destination in themselves.

4.3.2 Strait of Georgia North

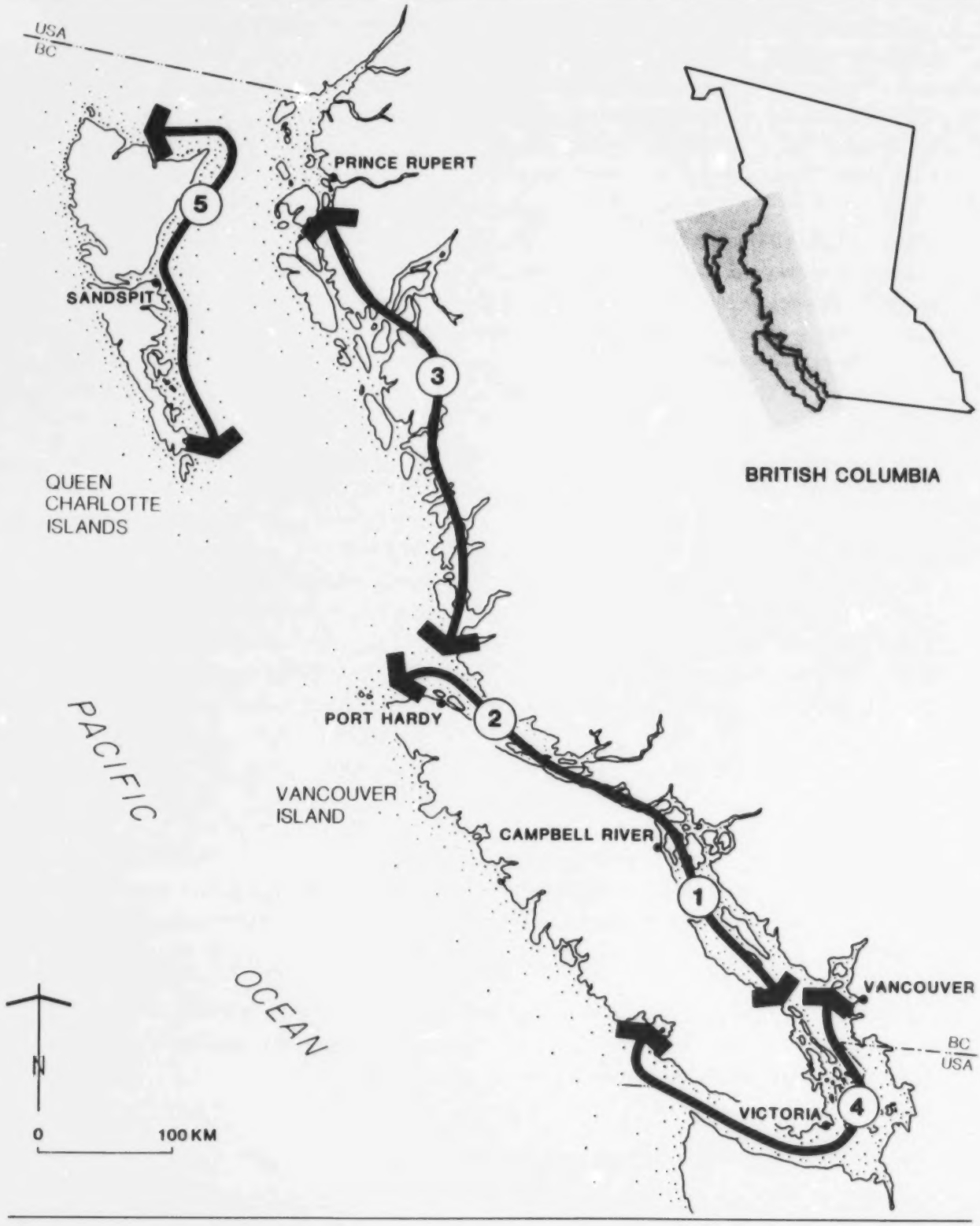
From Nanaimo to Campbell River the coastline is in transition. Developed areas are encountered less and frequently large areas of untouched shoreline start emerging. Salmon fishing and the logging industry are common themes along this area of coastline. North of Campbell River to Port Hardy and beyond, evidence of the native culture with villages and museums appear along the shoreline. During the summer time the commercial fishing fleet is evident throughout. Wilderness areas begin to dominate and there are several unique fjords to explore. Marine mammals concentrate in areas along the coastline and passengers can board small craft to watch wildlife. Along the way passengers are often exposed to areas of high tidal influence with standing waves and swirling waters. Some of the best sites for scuba diving occur along the way.

4.3.3 Inside Passage

The inside passage from Port Hardy to Prince Rupert is already a popular cruising destination for large cruise ships. Small ship cruise packages could be developed for this route which could offer a different experience. Small cruise ships could visit many of the historical and cultural sites and provide excellent wildlife viewing opportunities.

Prince Rupert marks the end of British Columbia's Inside Passage but also opens opportunities to travel west to the unique destination of the Queen Charlotte Islands and north to Alaska. The area is remote and offers both a unique natural and cultural setting on which to base a cruise itinerary.

EXHIBIT 4.2: SMALL SHIP CRUISING DESTINATIONS



4.3.4 Barkley Sound

The west coast of Vancouver Island offers a different cruising experience than the inside waterways with its rugged coastline and expanse of undeveloped shoreline. Itineraries for this area could feature viewing of the diverse marine mammal and bird populations, sport fishing, scuba diving and historical and cultural interpretation. Port Alberni, Bamfield, Tofino and Ucluelet are communities offering unique opportunities for on-shore excursions.

4.3.5 Queen Charlotte Islands

The international recognition of the Queen Charlotte Islands offers the potential for development of a destination small ship cruise product. The unique setting, wildlife, vegetation and Haida culture are all features of the Queen Charlotte Islands which, together, create an exotic destination. The full air service to the islands allows for operators to develop an excellent 5 to 7 day package.

5.0 LEGISLATIVE ENVIRONMENT

Legislation affecting the small ship cruise industry is extremely complex, with interrelated and fragmented jurisdictions as well as variations in interpretation and definition between government agencies. For example registry of vessels dictates operational certification, taxation, duty and gateway port selection -- all of which affect costs of operation and are in turn affected by regulations of several agencies including Transport Canada, (National Transportation Agency and Coast Guard), Department of Finance and National Revenue, and Employment and Immigration. The cruise industry is usually either not aware of specific legislation until it affects them directly or only generally aware of it. Cruise operators deal with legislation case by case, as it is encountered.

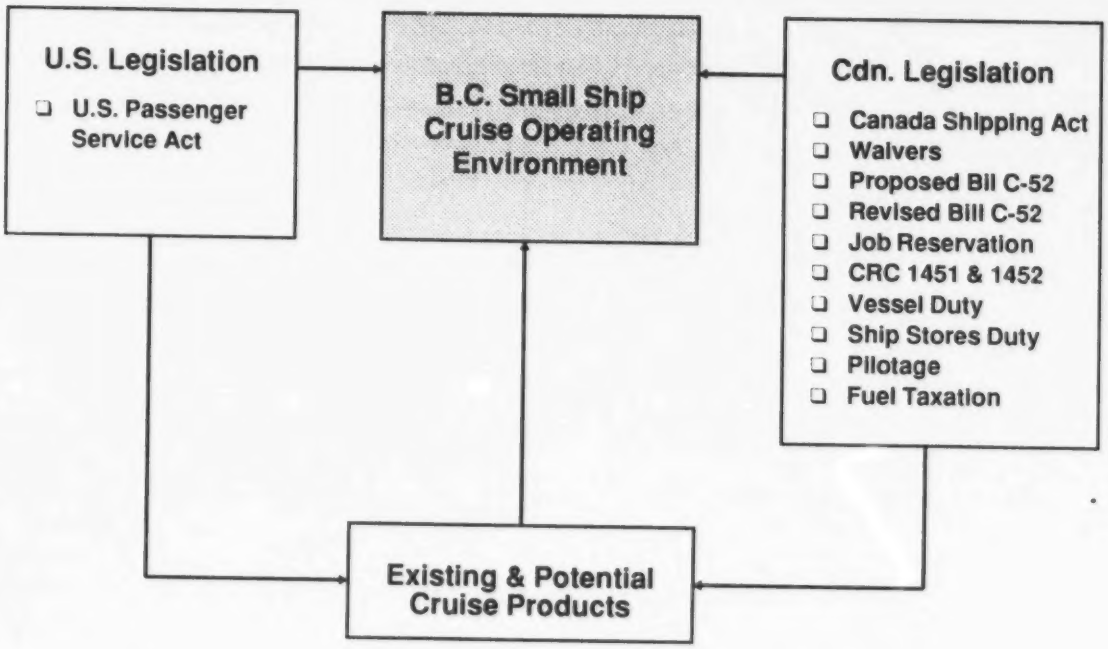
National and provincial governments are concerned with maintaining safety, protecting the environment, protecting existing Canadian industries and jobs and ensuring their constituencies (the people of Canada) receive fair treatment both in terms of equitable taxation and duty and safe business operations. Exhibit 5.1 illustrates the diversity of current legislation. For operators, the bottom line is the cost of registration, satisfying regulatory requirements and certification.

Information on legislation and regulations was obtained through telephone interviews with officials from:

- Transport Canada
- Revenue Canada
- Coast Guard
- Pacific Pilotage Authority
- Tourism Canada
- B.C. Ministry of Finance
- Canada Employment & Immigration
- Port of Seattle
- Puget Sound Cruiseship Alliance.

In addition to current legislation, potential changes, particularly to the U.S. Passenger Service Act and the Canada Shipping Act (Bill C-52) were explored. Changes to these Acts have the potential to change cruise itineraries and industry viability. The following overview presents the legislative environment for the development of the small ship cruise industry.

EXHIBIT 5.1: GOVERNMENT PERSPECTIVE OVERVIEW



5.1 U.S. Legislation

5.1.1 Legislation

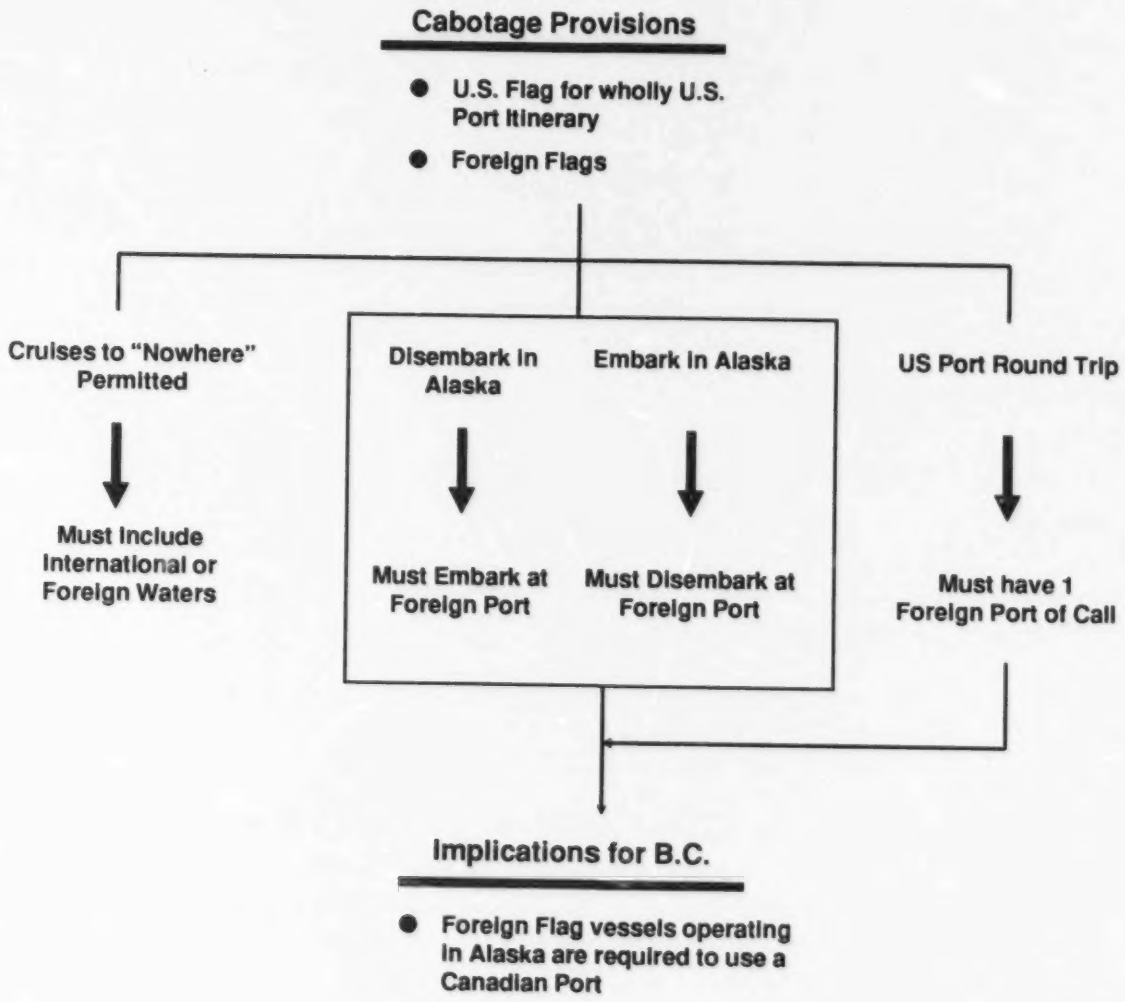
The U.S. Legislation plays an important role for cruise operations in the Pacific Northwest. For example, Alaskan cruise routes using Canadian ports as gateways are designed specifically in the context of the U.S. Legislation.

The legislation of most importance is the U.S. Passenger Service Act, enacted in 1886. Like its Canadian equivalent, the Canada Shipping Act, this U.S. act was designed to protect U.S. shipping and ship building interests in requiring U.S. flags for cruises which included only U.S. ports in their itineraries. It is the foreign flag provisions of this act which are of relevance to small ship cruising in British Columbia. Foreign flag vessels which utilize a U.S. port in one form or other (either as a gateway or as a port of call) are restricted in their operations as follows (Exhibit 5.2):

- Foreign flag vessels are permitted if they include international or foreign waters in their itineraries and use U.S. ports. These are called cruises to "nowhere";
- Foreign flag vessels selling an Alaska cruise experience may do so under the following; conditions:
  - if they embark in Alaska they must disembark at a foreign port
  - if they disembark in Alaska they must embark at a foreign port;
- Foreign flag vessels offering "U.S. round trips" must include one foreign port of call. For example, for Caribbean cruises, foreign flag vessels may embark and disembark in Tampa, Florida, if they include at least one foreign port of call in their itinerary.

In the absence of a small ship cruising industry in British Columbia, the U.S. Passenger Service Act has only had relevance to large cruiseships to date. In addition to the potential for use of Canadian ports as gateway ports for foreign flag vessels operating under U.S. laws, U.S. round trips are also of interest. In this case, British Columbia can benefit by offering ports of call for U.S. round trips which embark and disembark in, for example, Bellingham or Seattle.

EXHIBIT 5.2: US PASSENGER SERVICE ACT - EXISTING SITUATION


Cabotage Provisions
U.S. Flag for wholly U.S. Port Itinerary
Foreign Flags
Cruises to "Nowhere" Permitted
Must Include International or Foreign Waters
Disembark in Alaska
Must Embark at Foreign Port
Embark in Alaska
Must Disembark at Foreign Port
US Port Round Trip
Must have 1 Foreign Port of Call
Implications for B.C.
Foreign Flag vessels operating in Alaska are required to use a Canadian Port

5.1.2 Possible Changes

There is a strong lobby in the U.S. to allow foreign flag vessels to operate wholly in the U.S. and not be required to use a foreign port. If the U.S. Passenger Service Act is amended, Canadian ports will no longer be required under U.S. law. In this situation Canadian Ports of call would loose their competitive advantage due to legislation over U.S. port of call and the following would apply:

- **Canadian port use** - a commercial basis would prevail for Canadian home and destination port selection;
- **Cruise product selection criteria** - tour opportunities and the relative tourism merit of ports would be important in making commercial decisions;
- **Cruise operating environment criteria** - scheduling and steaming time, air access and relative costs would become important in making port selection decisions.

Although the Seafarer's International Union (SIU) is concerned that the cargo counterpart of the Passenger Service Act (Jones Act) would be the next to go if foreign flag passenger vessels were waived, the lobby to change the Act has intensified its efforts recently. In 1989, the Port of Seattle joined the Seattle Chamber of Commerce Puget Sound Cruiseship Alliance, pledging between $150,000 and $250,000 towards lobbying efforts.

The Alliance's proposed legislation would grant a waiver of the Act, not an elimination of it. Foreign flag vessels would be allowed to operate between U.S. ports, unless a suitable American flag vessel were available.

5.1.3 Issues

At the present time, the U.S. Passenger Service Act favours cruise ship activity in British Columbia in that it requires use of Canadian ports by foreign flag vessels offering Pacific northwest cruises. The success of the Alaska cruises have, of course, not gone unnoticed by ports in the U.S. and it is these ports such as Seattle which are lobbying strongly for the changes to the act described above. Their hope is that the changes, if accepted, will provide the environment necessary for the cruise industry to select a U.S. port for embarkation and disembarkation for Alaska cruises. In addition, they wish to see the development of a cruise industry which offers more intensive utilization of their ports throughout the U.S. Pacific coast.

The central issues for development of the small ship cruising industry in British Columbia presented by possible changes to U.S. legislation relates to the degree to which Canadian ports are:

- cost competitive with their U.S. counterparts;
- product competitive from a tourism perspective.

Thus attention is important not only to monitoring the possible changes to U.S. regulation, but also British Columbia (and Canada) must continually work to enhance their competitiveness in the eventuality that such changes will occur.

5.2 Canadian Legislative/Regulatory Environment

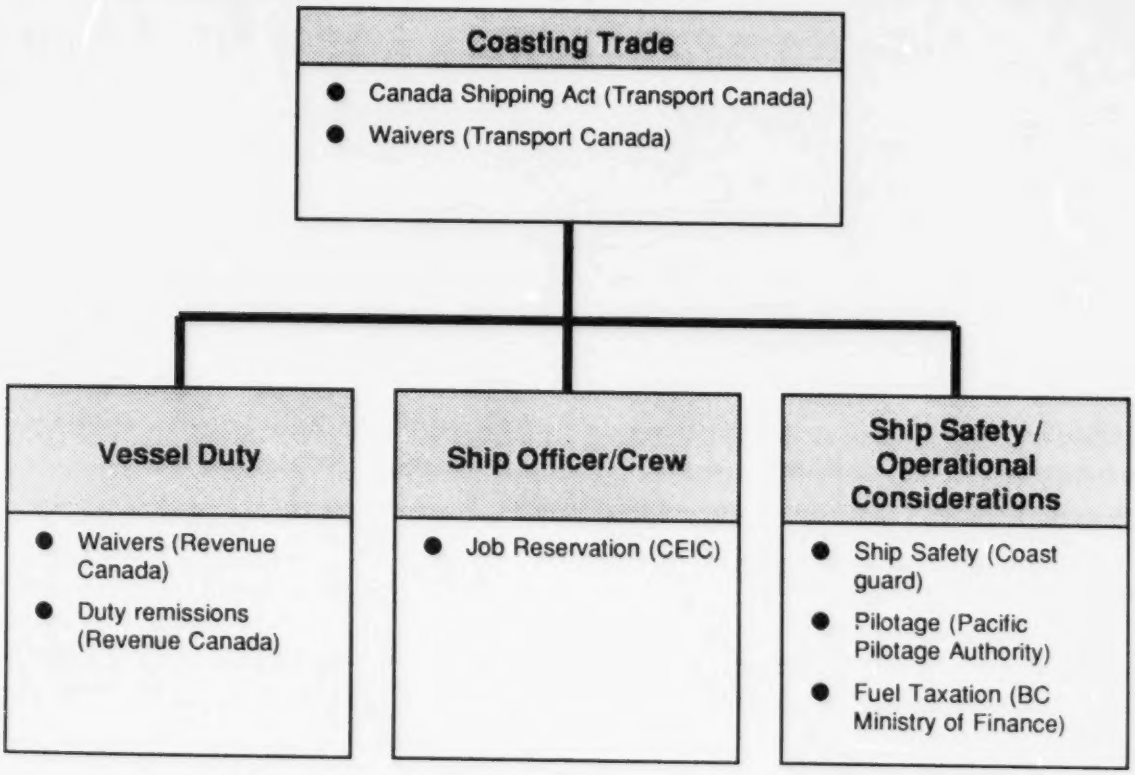
The development of the small ship cruising industry in British Columbia must take into consideration the legislative/regulatory environment imposed by Canadian law. Generally speaking, the legislation is structured to protect Canadian vessels which are operating in the Canadian coasting trade, encourage development of the Canadian shipbuilding industry, and encourage the use of Canadian expertise in the form of officers and crews. Thus, the motivation for Canadian legislation is similar to that for the U.S. Passenger Service Act described above.

In considering the introduction of a small ship cruise in British Columbia waters, operators must take into account a range of legislation and regulations (see Exhibit 5.3) that address:

- where they fall under the definition of coasting trade;
- duty considerations (in the case of foreign flag vessels or purchase of foreign flag vessels to use as Canadian flags);
- the selection of officers and crew;
- ship safety and operational considerations.

The importance of understanding the legislative/regulatory environment relates to the fact that the North American cruise industry normally operates with foreign flag vessels and crew. Historically, this situation has been dictated by cost factors, both in the construction of the vessel itself and in manning the vessel. Thus, it is the impact of this environment on cost and operational considerations that is important to understand in devising initiatives to encourage development of a small ship cruising industry in British Columbia.

Exhibit 5.3: Existing Canadian Legislation - Overview



5.2.1 Overview of Legislation and Regulations

A brief summary of the Canadian legislative/regulatory environment is presented below. Further detail is provided in Annex A. In the discussion below, the emphasis is placed on the difference between Canadian vs foreign flag vessel operations as the cost differences between the two have serious implications for small ship cruise industry development.

Canada Shipping Act. The Act is designed to protect Canadian vessels operating in the Canadian coasting trade. Canadian coasting trade is defined as:

- the carriage of goods or passengers from one port or place in Canada to another port or place in Canada.

Revenue Canada Customs Coasting Trade Regulations (1986) consider coasting trade to include itineraries which have foreign stopovers if those itineraries also include transportation between two Canadian ports.

To operate in the Canadian coasting trade, foreign flag vessels must first make an application to Transport Canada for a waiver. The application is then passed on to the National Transportation Agency (NTA) to search for a suitable Canadian ship. If the ship is not found then NTA notifies Revenue Canada who in turn grants the waiver. Then the operator is required to pay duties and taxes on the vessel to Revenue Canada. No waiver is granted if a suitable Canadian vessel is available. Waivers do not add to the cost of operation but their one year term and potential for losing the waiver when a suitable Canadian vessel becomes available may discourage investment in the industry by foreign flag operators.

Proposed Bill C-52. This bill, which died on the order paper in 1988, would have expanded the definition of the Canadian coasting trade (to be consistent with the Customs Coasting Trade Regulations) to include round trip voyages through foreign or international waters. Vessels under 250 overnight berths would only be granted a license as long as no suitable Canadian vessel was available. Because it includes voyages outside Canadian waters in the definition of the coasting trade, the proposed bill would have made it more attractive for foreign flag operators to base themselves in U.S. gateway ports.

Revised Bill C-52. This revision has yet to be introduced but it is understood that it no longer specifies that waivers are only allowed to foreign flag vessels of 250 overnight berths or more. Instead of size, the new coasting definition would allow foreign flag vessels on the east and west coasts (but not the Great Lakes) to qualify for flag waiver if part of their voyages included one foreign port of call. It is understood that Revenue Canada's definition (under the Customs Coasting Trade Regulations) will be amended to comply

with waiver provisions established under the proposed, revised Bill C-52 amendments.

Vessel Duty. Exhibit 5.4 shows the various categories of vessels and the duty that would be applied. Duty is payable on foreign vessels imported for the Canadian coasting trade. No duty is payable if the ship is considered to be engaged in international service; that is voyages beginning or ending outside of Canada. If the voyage is primarily between two Canadian ports it is considered to be part of the coasting trade and hence potentially dutiable. Large ship Alaska cruises that are foreign flags are able to operate round trips from Canadian ports with stopovers at foreign ports because there are no suitable Canadian ships available, enabling the granting of a waiver and, in turn, duty remission.

The vessel duty structure is explicitly designed to encourage Canadian shipbuilding. From the perspective of the small ship cruising industry development program, the key issue is that exemptions from duty are now available only to vessels with 250 berths or more operating under a foreign flag in Canada. Those under 250 overnight berths are not exempt from duty but may qualify for partial remission (that is paying 1/120th of the duty per month) and only if no suitable Canadian vessel is available.

Tariff entry regulation 9801.00.00 defines the application of duty provisions. Two general issues arise with this regulation:

- foreign cruise ships are dutiable at 25% upon importation whereas the tariff on U.S. ships is reduced to 20% for 1990 and 17.5% for 1991 (a competitive advantage);
- domestic/based conveyances (either a foreign flag vessel based on a Canadian home port or Canadian owned/operated foreign flag vessel) engaged in international passenger traffic is not duty free whereas foreign/based conveyances can be imported free of duty.

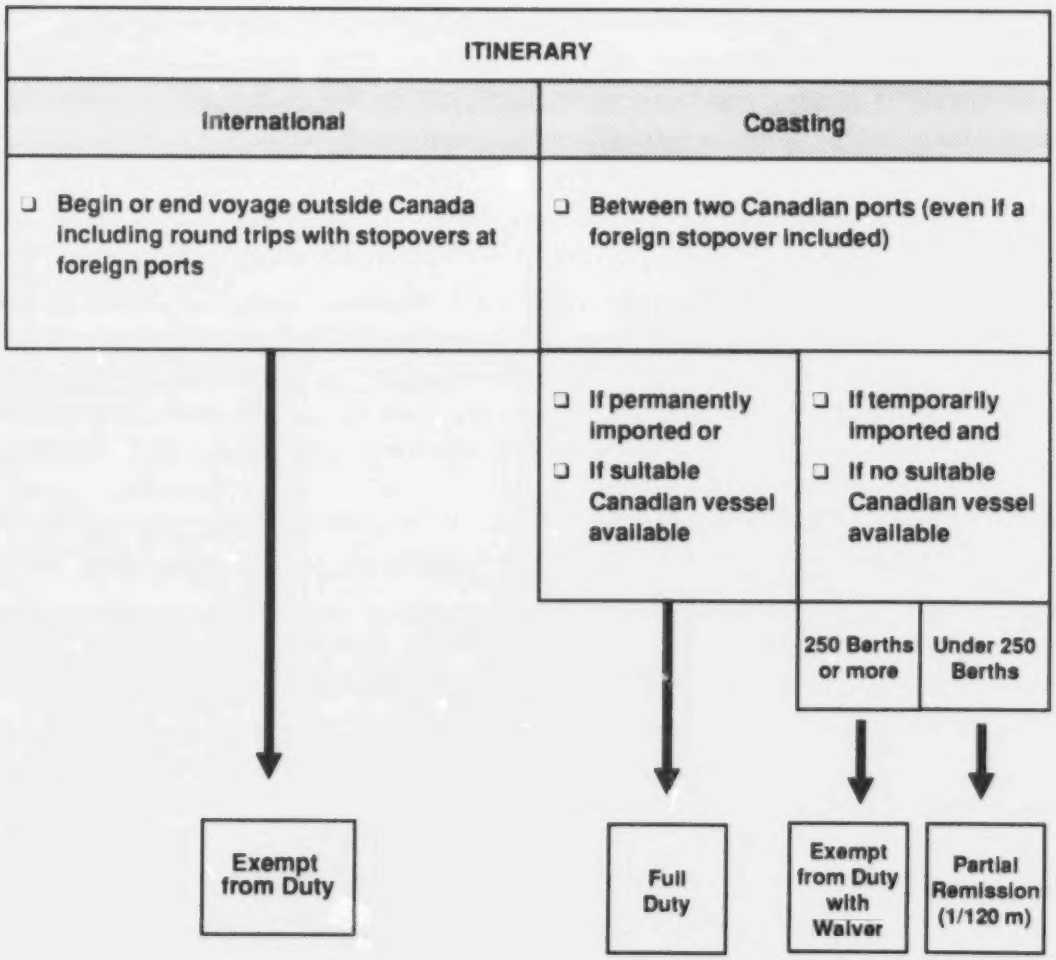
This interpretation needs to be clarified given that it appears to place a Canadian owner/operator of a cruise ship at a major disadvantage compared to foreign-based operations.

Ship Stores Duty. Supplies used in operation of ships are exempt from duties, sales taxes and excise taxes when the vessel is engaged in international trade. If it is exempt, supplies may be sold at duty free rates regardless of the flag of the vessel.

Job Reservation. Job reservation is intended to reserve jobs in Canada for permanent residents and citizens except for members of a crew of a vehicle of foreign ownership or registry engaged predominantly in international transportation. Canadian flag vessels operating in Canadian waters are required to operate with wholly Canadian officers and crew, 2-3 times the cost of foreign labour. Foreign flag vessels cruising only in Canada must hire Canadians on union or non-union scales. Foreign flag vessels operating from a Canadian gateway port with some international waters in their voyage may operate with a foreign crew

Exhibit 5.4: Vessel Duty

- Duty payable on vessels imported for "coasting trade"
- No duty payable if ships considered engaged in "international service"


ITINERARY
International
Coasting
Begin or end voyage outside Canada including round trips with stopovers at foreign ports
Between two Canadian ports (even if a foreign stopover included)
If permanently imported or
If suitable Canadian vessel available
If temporarily imported and
If no suitable Canadian vessel available
250 Berths or more
Under 250 Berths
Exempt from Duty
Full Duty
Exempt from Duty with Waiver
Partial Remission (1/120 m)

depending on the interpretation of Employment and Immigration Canada. They have tried to encourage the industry and interpret international service in light of the number of jobs generated, how long the service would operate, and the supply of Canadian workers available. Foreign flag vessels from a U.S. gateway port cruising in Canada are unrestricted and may operate with a wholly foreign crew.

Ship Safety and Ship Compliance Certificate Regulations. In general these regulations are designed to ensure safe operations of vessels and environmental protection. Operating a foreign flag vessel from a Canadian gateway port would require that the vessel meet international standards:

- fire proof construction;
- water tight integrity (or sea worthiness);
- manning qualifications.

Although there is some disagreement between operators and government about actual practises (some operators feeling that regulations are not enforced strictly) ship safety and environmental protection are critical issues and operators cannot avoid enforcement.

Pilotage. All vessels over 350 gross registered tonnes operating in B.C. waters are subject to compulsory pilotage except when reasonable safety can be assured. Tonnage calculations use the flag nation's method; however, 350 gross registered tonnes would likely include most vessels with over 100 overnight berths.

While some operators report pilotage fees are not a concern, the smaller the vessel, the higher the pilotage costs are per passenger. Pilotage fees are largely independant of vessel size and are approximately $100 per hour, adding between $150-300,000 to a season's operating costs.

Fuel Taxation. The pretax price of fuel oil in Canada is roughly 15-25% higher than U.S. prices. B.C. provincial taxes on marine diesel oil are $2.81 cents per litre and on bunker fuel, 7% of the purchase price. The relative cost of fuel (and provincial taxes) generally favour the use of U.S. gateway ports but fuel usually accounts for only a small portion of operators' total cost and may not be a critical factor for the operator.

5.3 Implications of Canadian Legislative/Regulatory Environment

The discussion above has identified a number of areas where efforts to encourage a small ship cruising industry in British Columbia may be or are hampered by the current legislative/regulatory environment. However, issues must be considered in the context of what some call competing objectives in this area.

From the British Columbia tourism perspective, a small ship cruising industry initiative is aimed at developing a new tourism product which generates benefits for communities and ports throughout British Columbia's coastline. This is not the orientation, nor does it reflect the objectives underlying the Canadian legislative/regulatory environment for small ship cruising. Here the objective is one of encouraging Canadian shipbuilding and use of Canadian expertise in the operation of cruise ships in Canadian waters.

The resolution of these competing objectives already has a precedence in the current treatment of large cruise ships operating under foreign flags. In general, the reality is that passenger cruise vessels are constructed in areas throughout the world with significantly lower capital cost than would be encountered in either Canada or the U.S.. Therefore large cruise ships operating in North American waters are usually foreign flag vessels reflecting the operators need to keep costs at a minimum. The federal government has recognized this situation in its practice of granting waivers permitting duty free (vessel) operations in Canadian waters where a foreign port stop is involved.

From a small ship cruise industry perspective, the issue is whether small ship cruises between, say 100 overnight berths and 250 overnight berths in size, will jeopardize the integrity of the federal government's objectives to protect the Canadian shipbuilding industry. This issue also extends to operational considerations such as manning and ship safety and compliance. It is one for which there are no simple answers. However, the discussion process between the small ship cruise industry steering committee for this study and federal government representatives has clearly demonstrated that a forum for greater understanding of each other's perspective can achieve a number of objectives:

- an appreciation of each other's position;
- clarification of the very complex legislative/regulatory environment;
- an environment for seeking positive and acceptable solutions from the perspective of all parties.

A summary of the key implications for developing a small ship cruise industry in British Columbia is set out below.

5.3.1 The 250 Overnight Berth Limit

From a small ship cruise industry development perspective, the 250 overnight berth limit is too onerous and it would be preferable to reduce this limit to 100 overnight berths. Even though partial remission is available for foreign flag vessels under 250 overnight berths, provided that no Canadian vessel is available, this remission is renewable annually and does create some long term uncertainty for operators.

Revenue Canada adopts a (reasonable) approach on this question that in the absence of specific proposals, there is no way to judge specifically how such a reduction will affect Canadian interest in shipbuilding. At best they are currently left with judgements concerning the impact of Canadian shipbuilding from such a reduction.

The British Columbia Ministry of Tourism in association with industry is proceeding to pursue small ship cruise industry development in the province. In the interim period until specific industry proposals are submitted, it may be useful to determine the economic impacts of such a reduction on the Canadian shipbuilding industry. This would help to settle once and for all the uncertainties concerning the reality of vessel construction in Canada to serve this industry.

5.3.2. Tarriff Entry Item 9801.00.00

This tarriff item, as mentioned above, appears to penalize Canadian based foreign flag and Canadian flag operations which include foreign ports in their itineraries. By placing a vessel duty on such operations, they are left with a significant cost disadvantage over small ship cruise operations which are U.S. based and which include Canadian ports of call in their itineraries.

5.3.3. Job Reservation

There is a significant cost differential between vessels operating with foreign crews versus those where Canadian crews are required. Foreign flag vessels operating from a U.S. port and cruising Canadian waters may operate with a wholly foreign crew, placing them at an advantage in developing a cruise industry product utilizing British Columbia waters. Canadian flag vessels operating only in Canada must operate with a Canadian crew and this places a premium on operating costs given differential labour rates. Where foreign flag vessels operate in Canadian waters with some international component in their itinerary, CEIC determines the requirements for foreign versus Canadian crew on a case by case basis. The key issue here is to alert CEIC to the tourism objectives of small ship cruise industry development and encourage an interpretation which recognizes the reality of both tourism product development on the one hand and protection of a reasonable job environment for Canadian expertise on the other hand.

6.0 OPERATING SCENARIOS

The previous sections clearly indicate that there is a demand for small ship cruising within British Columbia and that the province can provide ports of call and points of interest to create marketable itineraries. From the perspective of the cruise operator, the one underlying factor in selecting new destinations is the cost to operate. As indicated in Section 5.0, the legislative environment can pose restrictions which can in turn increase operating costs. In order to assess the implications of the legislation, five scenarios were evaluated which reflect the variations with respect to legislation. The scenarios are defined as:

1. Canadian flag; Canadian gateway port; all Canadian waters
2. Canadian flag; Canadian gateway port; transit U.S. waters
3. Foreign flag; Canadian gateway port; all Canadian waters
4. Foreign flag; Canadian gateway port; transit U.S. waters
5. Foreign flag; U.S. gateway port; transit U.S. waters.

For each of these five scenarios revenues and operating costs were calculated. These calculations were generated for two different sized vessels (100 and 250 passengers) and for two different package prices ($350 U.S. and $220 U.S. per passenger per day). **It is important to note that these financial calculations are for comparison purposes, they are based on percent ratios and are only indicative of a 4.5 month operation in British Columbia.** They do not take into account a full year of operation and the option of rerouting the vessel to other destinations for the other seven months. The scenarios are not intended to be a forecast of actual or future financial results, only as a comparison to illustrate the effects of vessel flag and gateway ports.

6.1 Scenario Assumptions

The following assumptions were applied to each of the scenarios:

- 7-day cruise length;
- 4.5 months of operation (May 15 to September 30) to represent the cruising season
- the following monthly load factors (percentage of total passenger capacity) were used;
  - May 70%
  - June 80%
  - July 90%
  - August 95%
  - September 80%

- For scenarios 2,4 and 5, transit U.S. waters, 25% of the itinerary and one port of call was assumed to be in U.S. waters;
- 66% lower labour costs for scenarios 4 & 5 because of the use of foreign crew;
- 3 - 6% lower vessel operating costs for scenarios 2,4 & 5 as their transit through US waters allows some savings in food, fuel and supply purchases; and
- 20% lower onshore overhead for small 100 berth vessel operating under foreign flags -- it is assumed that these vessels will have lower onshore operating costs because of their existing operations elsewhere, however, the savings in onshore overhead for larger 250 berth vessels is not expected to be great.

The comparison is based on a residual analysis method. Total revenue is divided between vessel operating costs and total overhead costs using assumed financial ratios for each scenario. Because operators are reluctant to release their operating costs, financial ratios were developed by the study team and checked with some prospective investors to ensure they reflect likely differences in costs of labour, food, fuel supplies and onshore overhead between scenarios. Annex C presents the financial ratios and the residual analysis for each scenario.

6.2 Scenario Comparison

For each scenario net income was calculated. Exhibit 6.1 shows net income before interest and taxes (but after depreciation) for all five scenarios. All values are in U.S. dollars. As indicated in this exhibit, the all Canadian scenario (scenario 1) generates the lowest net income over the five-month period. By comparing

EXHIBIT 6.1 NET INCOME BEFORE INTEREST & TAXES

Scenario	1	2	3	4	5
Flag	CDN	CDN	FGN	FGN	FGN
Gateway Port	CDN	CDN	CDN	CDN	U.S.
Waters Cruised	ALL CDN ($000's)	TRANSIT U.S. ($000's)	ALL CDN ($000's)	TRANSIT U.S. ($000's)	TRANSIT U.S. ($000's)
100 Berth Vessel					
Price per day					
$350 U.S.	$312.6	$354.3	$437.6	$833.5	$875.2
$220 U.S.	$262.0	$288.2	$340.6	$550.1	$576.3
250 Berth Vessel					
Price per day					
$350 U.S.	$2,083.8	$2,188.0	$2,083.8	$2,709.0	$2,813.2
$220 U.S.	$1,440.8	$1,506.3	$1,440.8	$1,768.3	$1,833.8

the percentage change of net income of the other four scenarios to this scenario, it is possible to illustrate the effects of ownership and gateway ports (Exhibit 6.2). In general, the scenarios heavily favour foreign over Canadian flags and slightly favour U.S. over Canadian gateway ports.

EXHIBIT 6.2: PERCENT CHANGE OF NET INCOME BEFORE INTEREST & TAXES OVER SCENARIO 1

	Base Case	Percent Change From Scenario 1			
SCENARIO	1	2	3	4	5
Flag	CDN	CDN	FGN	FGN	FGN
Gateway	CDN	CDN	CDN	CDN	U.S.
Waters Cruised	CDN	Transit U.S.	CDN	Transit U.S.	Transit US
100 Berth Vessel					
Price Per Day					
$350 U.S.	0%	+13%	+40%	+167%	+180%
$220 U.S.	0%	+10%	+30%	+110%	+120%
250 Berth Vessel					
Price Per Day					
$350 U.S.	0%	+5%	0%	+30%	+35%
$220 U.S.	0%	+5%	0%	+23%	+27%

Note: 250 berth vessels show considerably less variation between scenarios than 100 berth vessels because the difference between 250 berth and 100 berth vessel's net income in the Base Case is greater than differences between labour costs, vessel operating costs and onshore overhead between scenarios.

Almost all Canadian flag operations have lower net incomes than foreign flag operations, mainly because of their higher labour costs. Foreign flag vessels required to use Canadian labour rates (scenario 3) have the same low net incomes as Canadian flag scenarios unless onshore overhead is lowered (for the 100 berth vessels only).

Foreign flag vessels travelling in Canadian and U.S. waters (scenarios 4 and 5) have between 20% and 180% higher net incomes than Canadian flag vessels only travelling in Canadian waters.

The U.S. gateway port scenario (5) has only 4-13% higher net income than foreign flag vessels operating from a Canadian gateway port (scenario 4) but 25-150% higher net incomes than Canadian flag vessels operating from Canadian gateway ports (scenario 2). This difference is only partly related to lower costs of food, fuel and supplies in the U.S. The primary difference in gateway port operations are labour charges. All foreign flag vessels with some international component in their cruise itineraries are able to save significantly in their labour costs.

Net income calculations do not consider duty, ship safety upgrading or interest costs. To assess these capital costs need to be examined. This was done by illustrating the rate of return investors could expect from the five scenarios. It is important to note that rate of return has only been calculated for the 4.5 months of operation and not over a full year. Similarly, capital costs have been scaled down to 4.5/12th of the full capital costs to account for operations during the remaining year. **It is important to note that these calculations illustrated in Exhibit 6.3 are not projections of rates of return but only illustrative comparisons of scenarios. Actual returns will vary from operation to operation.**

As shown in Exhibit 6.3, scenarios with more foreign content - transiting U.S. waters, foreign flag or U.S gateway - have considerably higher returns than those with Canadian content.

EXHIBIT 6.3 INTERNAL RATE OF RETURN

Scenario	1	2	3	4	5
Flag	CDN	CDN	FGN	FGN	FGN
Gateway Port	CDN	CDN	CDN	CDN	U.S.
Waters Cruised	ALL CDN	TRANSIT U.S.	ALL CDN	TRANSIT U.S.	TRANSIT U.S.
100 Berth Vessel					
Price per day					
$350 U.S.	17.9%	17.6%	22.9%	37.4%	38.9%
$220 U.S.	8.9%	10.1%	12.5%	21.3%	22.3%
250 Berth Vessel					
Price per day					
$350 U.S.	29.7%	31.0%	29.7%	37.2%	38.4%
$220 U.S.	16.5%	17.4%	16.5%	20.9%	21.7%

Note: Assumes capital cost of $8.3 million for 100 Berth and $25 million for 250 Berth Vessels. Capital costs were scaled down to 4.5/12th of this to account for operations during the remaining year ($3.15M for 100 Berth and $9.5M for 250 Berth Vessels). The remaining 9 years of the 10 year projection use net income before depreciation.

The scenarios illustrate many of the problems faced by potential investors. The cost of Canadian labour is often too high for operations to be viable. Vessels cannot operate solely on a 4.5 month schedule. They require another cruising destination or another source of revenue for the off-season. If all capital costs are applied to only the 4.5 months of B.C. cruising, returns would likely be negative for most scenarios. Debt servicing and attracting equity are therefore both difficult for operators.

Once the added costs of vessel duty and upgrading vessels to Canadian Ship Safety Standards are considered the investment becomes even more uncertain. Operators do not qualify for partial remission of duty (1/120th rule) when a Canadian ship becomes available, adding to the risk of their investment. Ship safety upgrading costs cannot be accurately estimated before vessels are purchased, adding more risk. Exhibit 6.4 shows the results of various capital cost assumptions (full duty or partial remission) for one vessel size and price assumption. Although all the IRR's increase for all scenarios with U.S. or other foreign construction, these increases all assume a second cruising destination or another source of revenue in the off-season.

6.3 Implications

The current legislation and regulations have significant impacts on the operating costs and internal rate of return. Potential investors wanting to either expand their existing operation or establish a new business in small ship cruising are faced with several areas of concern.

Investors must be convinced that vessel capital costs (including duty and upgrading to Canadian safety standards) and labour costs will be low enough to achieve adequate returns on their investment. Because of the uncertainty of vessel duty remission and necessary safety upgrading, investors may demand a high return to justify their risks. Initiatives must address investor's need for lower risks (security of access and assistance in estimating costs for needed safety upgrades) and lower capital costs.

The results of the scenario comparison illustrate that for an all Canadian vessel to operate in B.C., a 25% or more internal rate of return can only be achieved with a lower vessel cost or a fairly high price per day. Thus the current setting favours foreign owned vessels. The results also indicate that a 4.5 month season of operation is too short and that the vessel would probably require repositioning for the remaining seven months. For Canadian based operations repositioning will require them to compete with other companies which have not paid Canadian duty and hence lower capital costs. This will place the Canadian based companies at a disadvantage.

EXHIBIT 6.4 INTERNAL RATE OF RETURN WITH VARYING CAPITAL COST ASSUMPTIONS [1]

(250 Berth Vessel $350 US Price per day)

Scenario	1	2	3	4	5
Flag	CDN	CDN	FGN	FGN	FGN
Gateway Port	CDN	CDN	CDN	CDN	U.S.
Waters Cruised	ALL CDN	TRANSIT U.S.	ALL CDN	TRANSIT U.S.	TRANSIT U.S.
Base Case:					
$ 9.5 million	29.7%	31.0%	29.7%	37.2%	38.4%
U.S. Built					
Full Duty					
$ 9.46 million	29.9%	31.2%	29.9%	37.4%	38.6%
U.S. Built					
Partial Remission					
$7.67 million	38.6%	40.1%	38.6%	47.4%	48.9%
Other Built					
Full Duty					
$7.93 million	37.1%	38.6%	37.1%	45.7%	47.1%
Other Built					
Partial Remission					
$6.41 million	47.3%	49.0%	47.3%	57.5%	59.3%

Note: Capital costs and interest rates of return shown are only for 4.5 months of operation. Capital costs are scaled down to 4.5/12th of total costs to account for operations during the remaining year.

7.0 ECONOMIC IMPACTS

The small cruise industry has the potential to stimulate income and employment in Canada. Using the results from the market demand survey and operating scnearios direct industry revenues of $61.3 million Canadian annually ($52.1 million U.S.) are estimated for a mature industry. This corresponds to 19,300 passengers utilizing five 100 berth ships and three 250 berths ships over a 4.5 month season.

As well, potential exists for offship expenditures by passengers and crew. Most important from a regional development perspective, these expenditures would be made in a coastal port of call. The development of a small cruise industry would in turn create local economic benefits to the small communities along the British Columbia coast.

In this section the potential economic impacts from a small ship cruise industry to both Canadian at large, and an illustrative port of call coastal community have been outlined. The cruise ship revenue and cost projections of the previous sections, and economic multiplier analysis were used. Since a small ship cruise industry does not presently exist in British Columbia, the analysis is necessarily hypothetical.

Industry wide impacts can be calculated for either British Columbia alone or Canada as a whole. As the primary purpose of the impact assessment is to illustrate the product development environment facing the industry and much of the variation between scenarios results from national policies, it was decided to present the national perspective of impacts.

The passenger volumes used to derive these potential economic impacts are conservative estimates based on the results of the market demand survey (see Section 2.6).

7.1 Economic Impacts to Canada

The Nature of Economic Impacts. The pro forma of operator cash flows in Section 6.2 does not provide information regarding the economic impacts of the industry to the local and national economies. A different perspective is required.

Economic impacts arise directly from income and employment from cruise operations. Auxiliary expenditures by passengers and crew in ports of call for local tours, souvenirs and the like also generate income and employment.

In addition to these direct effects, "spin off" effects occur through backward linkages to suppliers of goods and services, and through the respending of wage income earned by workers on consumer goods and services. From both cruise operations and auxiliary spending, the sum of direct activity, backward business linkages and induced consumer spending impacts represent the total economic impact of initiating a small ship cruise industry.

Income represents the sum of business income and wage salary payments -- income sometimes is called value-added or Gross Domestic Product (GDP). Business income represents the capital surplus available to cover interest payments on borrowed capital, a depreciation reserve for the recovery of capital, taxes, and after tax profit or return to capital. Employment is measured in person years.

The total magnitude of impacts depends both on the absolute level of expenditure in the region as well as the multiplier effects on the rest of the region. The multiplied effects depend on the economic structure of the region, particularly the import content of goods and services purchased.

Imports, as well as taxes and savings, represent "leakages" from the regional economy, i.e. money spent on imports is not available for respending within the region. The cruise industry will have a much greater impact on Canada than on the local community since a greater share of total purchases by operators, passengers and crew would be made within the country than within a small coastal community.

The methodology underlying the Canada and local economic impact estimates in the section to follow is discussed in Appendix C. A disaggregate approach was adopted employing the projected expenditure structure of the cruise industry discussed in previous sections.

Canadian Impacts. Of the total cruise industry annual revenues of $61.3 million, expenditure on wages, other operating costs, overhead etc comprise $46.0 million. The residual capital surplus represents $15.3 million (Exhibit 7.1)[1].

Not all these expenditures are made in Canada. The level of Canadian expenditures varies with the Scenario under consideration. Scenario 1 -- with a Canadian flag registry, a Canadian gateway port and the cruise itinerary occurring exclusively in Canadian waters -- has the largest level of Canadian expenditures at $32.9 million. Scenario 5 -- with a foreign flag registry, a U.S. gateway port and the cruise itinerary occurring in both Canadian and U.S. waters -- has a much lower level of Canadian expenditures at $16.1 million. The variation reflects differences in country of provisioning, nationality of crew etc.

EXHIBIT 7.1 **ANNUAL CANADIAN ECONOMIC IMPACTS FROM A SMALL SHIP CRUISE INDUSTRY**

Impacts by * Expenditure Source	Scenario 1	2	3	4	5
Ship Expenditure**					
Total Expenditure ($ million)	46.0	45.4	45.2	40.7	40.1
Canadian Expenditure ($ million)	32.9	32.3	26.7	20.1	15.2
GDP or Income ($ million)	50.6	49.7	41.2	30.1	22.8
Wages & Salaries ($ million)	35.7	35.1	29.5	20.1	15.2
Employment (PY's)	1260	1240	1050	680	520
Other Expenditures * **					
Total Expenditures ($ million)	2.0	2.0	2.0	2.2	2.2
Canadian Expenditures ($ million)	2.0	1.5	2.0	1.6	1.6
GDP or Income ($ million)	3.0	2.2	3.0	2.5	2.5
Wages & Salaries ($ million)	2.0	1.5	2.0	1.7	1.7
Employment (PY's)	70	50	70	60	60
Total Expenditures					
Total Expenditures ($million)	48.0	47.4	47.2	42.9	42.3
Canadian Expenditures($million)	34.9	33.8	28.7	21.7	16.8
GDP or Income ($ million)	53.6	51.9	44.2	32.6	25.3
Wages & Salaries ($ million)	37.7	37.6	31.5	21.8	16.9
Employment (PY's)	1330	1290	1120	740	580

* All expenditures, income and wage and salary impacts are expressed in 1990 Canadian dollars; employment is expressed in person-years(PY's). Impacts are total impacts --direct, indirect and induced. These are based on scenarios using $350 U.S. per day passenger charges, an 0.85 Canadian dollar, 5-100 berth vessel and 3-250 berth vessels.

** Impacts from crew wages, operating expenditures, overhead, marketing expenditures and commissions paid.

*** Impacts from tour expenditures by passenger in ports of call, other passenger expenditures off the ship, and spending by foreign crew.

Other off-ship expenditures by passengers and foreign crew[2] comprise $2.0 million for scenarios 1 and 3, and $2.5 million for other scenarios. The latter figure is higher since it includes a foreign crew spending component.

The Canadian share of these expenditures depends upon whether the cruise occurs exclusively in Canadian waters (scenarios 1 and 3) or occurs in both Canadian and U.S. waters.

Total ship crew wages are $6 million Canadian and represent 250 person-years of employment.

Canadian impacts vary by a factor of two between scenarios 1 and 5. Under scenario 1, the high Canadian content scenario, annual impacts are:

- $34.9 million in Canadian expenditures;
- $53.6 million in GDP or income;
- $37.7 million in wages and salaries;
- 1330 person-years of employment[3].

These impacts represent direct industry effects as well as ripple effects on other sectors of the economy.

The provincial, federal and municipal governments will receive tax revenue from small cruise ship activity -- corporate income taxes, personal income taxes, consumption (sales) and other taxes. Tax revenues under the various scenarios are estimates to be flowing from[4]:

	Government Tax Revenue
Scenario #1	$12.9 million
Scenario #2	$12.5 million
Scenario #3	$10.6 million
Scenario #4	$ 8.0 million
Scenario #5	$ 6.2 million

The government revenues flow from total direct, indirect supplier and induced consumer spending activity.

7.2 Community Impacts

Expenditure by ship operator, passengers and crew in small ports of call along the British Columbia coast have the potential to increase regional output of goods and services, thereby facilitating local economic development.

The regional impact estimates of Exhibit 7.2 correspond to an illustrative coastal community of less than 25,000 people. We assume that the community serves as a port of call for 6400 passengers, or one third of the 19,300 total passengers.[5]

Local income and employment impacts flow from local expenditures. Local expenditures under the five scenarios all are under $300,000.

Local impacts for an illustrative community under scenarios 1 and 3 are estimated at:

- $130,000 in local value-added;
- $9,000 in local wages and salaries;
- 5 person-years of employment.

Estimated impacts for the other three scenarios are 75% of these[6]. The local impacts for each scenario are less than 1% of the Canadian impacts of Exhibit 7.1.

The local impacts, although small in an absolute sense, can be significant to the local economy. Another consideration is that, in all likelihood, the ship passengers and crew would not have visited the local community without the cruise operation. The "export" nature of these expenditures suggest that local expenditures truly represent a net injection of income to the local economy.

EXHIBIT 7.2 **ANNUAL LOCAL ECONOMIC IMPACTS FOR AN ILLUSTRATIVE COASTAL COMMUNITY FROM A SMALL SHIP CRUISE INDUSTRY**

Impacts *	Scenario 1	2	3	4	5
Local Expenditure ($000)					
Provisions, Berthage, Fees	60	40	60	40	40
Passengers & Crew	200	150	200	150	150
Total	260	190	260	190	190
Local Impacts					
Local Value-Added	130	100	130	100	100
Local Wages	90	70	90	70	70
Local Employment (PY's)	5	3	5	3	3

* All expenditures, income and wage and salary impacts are expressed in 1990 Canadian dollars; employment is expressed in person-years(PY's). Impacts are total impacts --direct, indirect and induced. These are based on scenarios using $350 U.S. per day passenger charges, an 0.85 Canadian dollar, 5-100berth vessels and 3-250berth vessels.

Footnotes

1 No Canadian impacts are attributed from this capital surplus component. The assumption is that the ships are constructed abroad, have foreign owners etc.

2 Economic impacts from consumer spending under Canadian crew are captured in the impacts associated with ship expenditures (through the induced effect).

3 One should not divide the total employment impact of 1380 by the direct crew employment of 250 to derive a ratio multiplier. It is meaningless. Due to the low 10% wage and salary content of ship revenues, the vast majority of impacts result from ship provisioning, overhead etc then from firect crew employment. That is, a ratio multiplier approach was not employed (see Appendix D).

4 We estimated that government revenues flowing from direct, indirect and induced activity were 37 cents for each $1 of direct Canadian expenditures.

Jonathan Seymour & Associates, 1989, estimated government revenues of $36.7 million revenue from $99.2 million in direct Canadian expenditures for the Alaska Cruise Industry. The 37% figure also is close to government revenue impacts for general tourism derived directly from Statistics Canada Interprovincial Input-Output Model.

Jonathan Seymour & Associates, "The Alaska Cruise Industry: Economic Benefit to Canada 1989", Vancouver, August 1989.

Statistics Canada, "1979 Interprovincial Input Output Model Results", Structural Analysis Division, Ottawa, 1985.

5 For analysis purposes, we assume that each ship makes 4 ports of call on each one week trip. We also assume that there are 12 potential ports of call. The result is that one third (4/12) of the 19,300 total passengers would visit a particular port of call.

6 Under scenarios 2, 4 and 5 involving cruising in both Canadian and US waters, we assume that 3 of the 4 ports of call will be Canadian.

8.0 INITIATIVES TO ENCOURAGE A SMALL SHIP CRUISE INDUSTRY

The findings from the market research study provide evidence that there is a significant market for small ship cruising in British Columbia. Deriving forecasts of the economic impacts from the market research findings, illustrate there is a potential for an industry which could generate a range of $25.3 to 53.6 million in economic impacts (gross) to Canada. This range is based on the 5 scenarios discussed in Section 6. The all Canadian scenario yields the greatest economic impacts ($53.6 million), however it is unrealistic to assume that a mature industry would in fact reflect this all Canadian scenario. As discussed in this report several factors such as legislation, cost of crew, cost of construction, etc. impact the operating environment of a small ship cruise vessel. A more realistic mature industry would be a mixture of foreign flag vessels with some Canadian flag vessels. Already considerable interest has been expressed by the private sector in developing products for this industry as evidenced by inquiries made at both provincial and federal levels concerning potential investment and market entry.

In this context then, British Columbia faces an opportunity to encourage the development of an entirely new tourism product area which capitalizes on the world class scenic cruising environment of this coastline line. As with any new product area, a partnership of the public and private sector is required to fully exploit the potential. In this case, the role of the public sector is to ensure that there is a product and operating environment which facilitates investment by the private sector and reduces their risk. Effective fulfilment of this public sector role will, in turn, encourage desired private sector investment. The initiatives described below are designed to ensure to the extent possible, that a positive investment climate is created for the small ship cruising industry. In order to achieve this, initiatives are proposed on several fronts ranging from preparedness of B.C. ports to accommodate small ship cruising to exploration of possible adjustments in the legislative/regulatory environment to reflect the industry's investment and operating constraints.

The initiatives described below are put forward as recommendations for consideration by the Ministry of Tourism. In addition to the role outlined below for the Ministry of Tourism, the Ministry of Transportation and Highways also has the potential to play a role in the development of the province's small ship cruise industry. The mandate of this ministry ensures that the Policy Department maintains an on-going interest in British Columbia's ports of call and in the federal, provincial and international regulatory environment as it applies to all types of marine activity. With the respect to the small ship cruise industry the Ministry of Transportation and Highways would then act as government liaison on these specific areas as they affect the industry's development.

1. Port Initiatives

1.1 It is recommended that the Ministry of Tourism, and CIABC implement a program to inform ports of the potential for small ship cruising in the province. The information program should address the following general areas:

- **technical requirements of the small ship cruising industry for berthage and related services;**
- **on-shore requirements and tourism product references.**

This initiative should have three components; an introductory forum to provide initial information to interested ports, a "handbook" providing information on the nature of the small ship cruising industry and their requirements as part of the port of call visit, and a point of contact for follow up information. The first and last components are addressed in detail in initiatives 4 below. The information handbook should be prepared in an easily understood, non-technical style and cover the following topic areas:

- **Background on Small Ship Cruising Potential**
  - Summary of the market research
  - Definition of small ship cruising
  - Typical itineraries
  - Economic impact potential
- **Technical Requirements**
  - Berthage and lightering
  - Passenger disembarkation
  - Vessel manoeuvring
  - Fire and safety
- **Onshore Requirements**
  - Services and facilities, e.g. fuel, water, garbage disposal, air access.
  - Tour products including tour capacity, etc
  - Sales opportunities, with particular emphasis on local artisan and craft products
  - Restaurant and entertainment facilities
- **Scheduling Requirements**
  - The importance of fixed schedules to ship itineraries.

The findings from the sample port interviews indicated that a better understanding of the small ship cruising industry was required in order to fully assess the port of call product and preparedness to receive small ship cruises. In preparing the handbook, particular attention should be paid to these areas, namely:

- the service/access guarantees required by small ship cruises;
- understanding of technical requirements.

1.2 It is recommended that the Ministry of Tourism, and CIABC encourage the communities to work together to attract the small ship cruise investment.

The industry cites the need for diversity in both individual itineraries and in the number of alternative itineraries. It takes time for the industry to develop products and in the initial stages it is important that communities work together with the operators. To maximize their potential, communities should emphasize their strengths and not try to be all things to the small ship cruise product. For example, a cooperative approach to selecting themes amongst communities (that is, fishing for one, Native culture for another; and logging for a third) will be much more attractive to the operator than if each community attempts to compete with the other.

1.3 It is recommended that an information network be established between the Ministry of Tourism, CIABC and coastal communities interested in the small ship cruising industry. The purpose of this information network is to provide points of contact in communities for the industry.

The port survey findings indicated that there was a need to provide a single contact point who could make referrals on the basis of request for information by the cruise industry. The intent is not to have the contact point provide and maintain all possible items of information but rather to serve as a clearing house for requests. Each community or port will be in the best position to identify who that contact point might be (e.g. the Chamber of Commerce, the port authority, the community council). Communities should be encouraged to identify a contact point during the community forum (see initiative 4 below) and in the information pamphlet. The Ministry of Tourism should be responsible for assembly of a comprehensive list of contacts and provide these to the CIABC and Ministry of Transportation and Highways .

1.4 It is recommended that the Ministry of Tourism assemble an information package on interested communities and ports of call which can be provided to industry upon request. This information package can serve as a form of "fulfilment package" and should include general information on British Columbia, and specific information on ports and communities and their associated tourism products. The contact list should be included in the information package.

The information to be included need not be prepared as a new, distinct publication. There is sufficient information through such publication as British Columbia Ports Handbook and others to provide the necessary initial background from an industry prospect. A copy of the small ship cruising industry report should also form a part of the package.

2 Legislation Initiatives

2.1 It is recommended that the Ministry of Tourism in cooperation with the Ministry of Transportation and Highways and CIABC continue efforts to increase industry awareness with federal agencies involved in developing and applying legislation and regulations which affect the industry.

There is a wide range of federal agencies with mandates affecting the small ship cruising environment. The project's Steering Committee convened a workshop session during the course of this study to bring together these agency representatives and inform them of the tourism industry perspective on small ship cruising and its relation to the operating environment. This workshop should represent only a start of the ongoing program of information exchange between those seeking to establish a small ship cruising industry in British Columbia and those responsible for regulation/legislation. Follow up actions to consider include further workshops, "newsletters" of important events or milestones in the product development process, and the like. The Ministry of Tourism should request information from these agencies on proposed changes in legislation/regulation or changes in interpretation.

In addition to the obvious advantages of keeping up to date on the operating environment and ensuring that the small ship cruise industry "tourism development" perspective is properly transmitted, all parties will gain an increased understanding of the operating environment and how it can affect the small ship cruise industry. It is note worthy that federal agency representatives at the Steering Committee workshop during this study generally concurred that it was useful not only to increase understanding of the tourism development initiative but also to exchange information amongst themselves.

2.2 It is recommended that the Ministry of Tourism in collaboration with the Ministry of Transportation and Highways and CIABC representatives seek further discussion on key areas of legislation/regulation which act to reduce the incentive for investment in small ship cruising in British Columbia. Priority areas are:

- **the interpretation by Revenue Canada that ships under 250 berths are not eligible for a waiver;**
- **the nature of the waiver position as proposed in Bill C-52 (namely that waivers must be reviewed annually and are renewable up to a maximum of three years.**

It is recognized that the Maritime legislation/regulations dealing with commercial trade are designed in part to encourage the Canadian marine industry including ship building. On the other hand, study findings have demonstrated the potential for a industry generating up to $50 million in economic impacts annually for Canada. This is sufficient motivation to encourage a process of dialogue and investigation to identify areas where tourism industry objectives can be accommodated without jeopardizing objectives related to Canadian ship building.

At the present time, there is not sufficient information on just how a more relaxed approach toward foreign flags in small ship cruising in Canadian waters will affect the ship building industry. Some argue it is unrealistic to expect that Canadian shipyards can be competitive in constructing or refitting small ship cruise vessels in face of world competition and that Canadian shipyards are neither equipped nor oriented to the requirements for small ship cruise construction. Some research on these questions will be helpful in exploring possible changes to the legislation/regulation environment so that they are more amenable to investment by the cruise industry.

Also helpful would be a comparative analysis of the economic gains and losses to Canada in pursuing one or other of the economic development objectives. In fact, such an analysis will require investigations of the information gaps described above.

Notwithstanding the cost of implications of duty provisions, one of the concerns from an industry perspective is the need for renewal of waivers on an annual basis. Inspite of the good will and history of interpretation associated with waivers, the legal fact of the matter is that access to the market is only secured for a period of one year. More than any other factor, this can discourage efforts to invest in product development in British Columbia. Therefore it should receive particular emphasis in the dialogue proposed in this initiative.

3 Operator Initiatives

3.1 It is recommended that a briefing session be held with prospective investors or with others in British Columbia as a first step in informing the industry of market research findings and British Columbia's product development process.

This initiative is in keeping with efforts to encourage local industry to take advantage of the market potential in British Columbia. This briefing could be sponsored by the Steering Committee and be undertaken in Vancouver. Announcement of the briefing should be made known to all parties who have

expressed an interest in small ship cruising in B.C. The Vancouver and provincial chamber of commerce should be informed and encouraged to send a representative and industries such as naval architecture should also be encouraged to attend given their connection with investors.

3.2 It is recommended that the steering committee seek the opportunity to inform industry of the British Columbia potential during the upcoming cruise a thon event in Vancouver. This can be structured as a "press release" event related to the small ship cruising industry study and should be scheduled to enable a presentation of findings, discussion and question period.

Cruise-a-thon provides a useful forum to formally announce British Columbia's findings and program for small ship cruise industry development and initiate a process of communicating market potential and British Columbia's interest to industry throughout North America and the world.

3.3 It is recommended that the Ministry of Tourism in association with CIABC establish a program to inform the cruise industry and potential small ship cruise operators of the market potential in British Columbia and the Province's initiatives to pursue product development. Activities under this program can include:

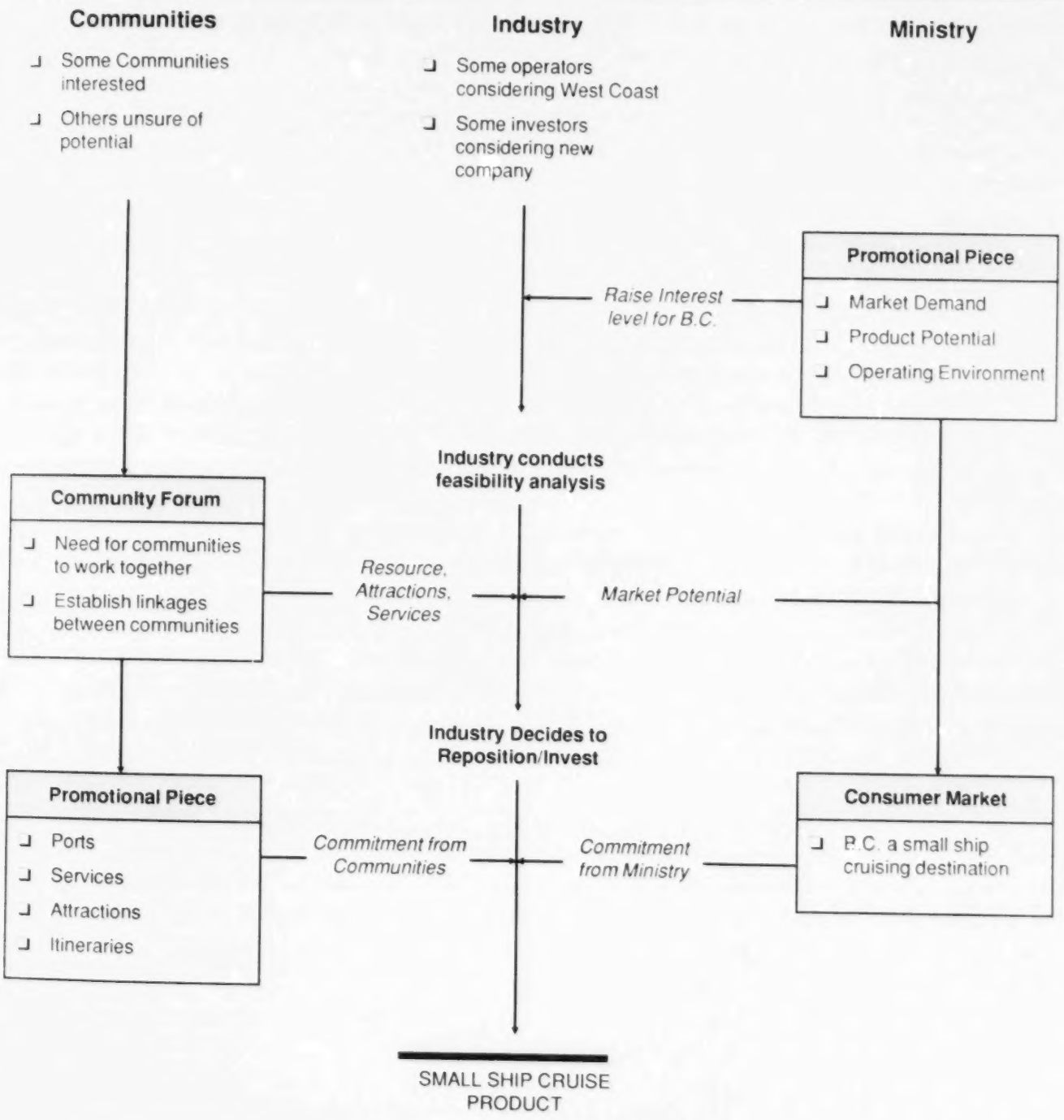
- **a mail out information to individual operators (using the operator list established for this study and supplement it as appropriate) which highlights the results of the study;**
- **informing industry associations (e.g. CLIA);**
- **attending key cruise industry events to establish contacts and networks and create opportunities to inform industry.**

One cannot expect to convince potential interested parties through single techniques such as mailouts. Therefore activities such as attendance at cruise-a-thons is critical to informing the industry. In addition successful operators who are interested in British Columbia as a cruising destination could be invited to speak at the forums for communities and ports to present the operators perspectives on port requirements (Initiative 1.1). These actions would provide first hand experience and knowledge to the forum and increasse the awareness of British Columbia as a cruising destination to the industry.

4 Product Development Process

4.1 It is recommended that the small ship cruising industry product development process generally follow the activities described in the initiatives and summarized in the following Exhibit 8.1.

EXHIBIT 8.1: SMALL SHIP CRUISE PRODUCT DEVELOPMENT PROCESS



The success of this industry's development is dependent on the role of the communities, industry and government. All three groups must work together to encourage the development of the industry. The industry will not develop if anyone of the three do not participate.

4.2 It is recommended that the Ministry of Tourism establishes a specific function of Ministry for ongoing management of the Marine Tourism Industry as a whole.

Small ship cruising is a component of the overall Marine Tourism industry and with respect to this component the Ministry's responsibilities should include:

- encouraging investment in the industry;
- coordinating information requests between communities/ports, investors/operators and government agencies;
- informing ports of potential and requirements of small ship cruising;
- preparing small ship cruising handbook;
- encouraging communities to identify a single point of contact;
- increasing awareness and discussion on legislation and regulations which reduce the incentive for investment;
- preparing information packages for interested operators;
- attending key cruise industry events to establish contacts and networks.

A single point of contact and responsibility for ongoing management of this initiative will be fundamental to its potential success. Given the economic development potential ($50 million industry) a specific role of the ministry is believed to be warranted, the process of which is highlighted in Exhibit 8.1.

4.2 It is recommended that the Ministry of Tourism incorporate British Columbia as a cruising destination within their existing marketing campaign.

The industry was almost unanimous in stating that a pre-condition to major investment in a British Columbia ship cruise product is increasing market place awareness. Currently the market place is not aware of British Columbia as a cruising destination. An aggressive campaign is required to increase this awareness and to emphasize the products unique and exciting features. This campaign in part should be initiated by the Ministry of Tourism and by the individual operator.

ANNEX A

LEGISLATIVE ENVIRONMENT

CANADA SHIPPING ACT: EXEMPTIONS FROM COASTING TRADE - WAIVERS

- Foreign flag operators first must apply to Transport Canada for waiver. National Transportation Agency (NTA) establishes if any suitable Canadian ships are available and advises Revenue Canada who issues the waiver/license.

- Taxation and duty items dealt with under Customs Act; delegated to Revenue Canada.

- Existing Customs Coasting Trade Regulations (1986) of Revenue Canada consider Canadian coasting trade to include voyages made partly outside of Canada.

- If voyage is Canadian only or by way of a place outside Canada, foreign flag vessels can only be licensed (exempted from requirement to have Canadian flag) after NTA established no suitable Canadian ship available, all duties and taxes paid.

- Licenses granted for any period up to twelve months at a time and restricts type and location of operation.

IMPLICATIONS

- Designed to protect Canadian vessels operating in the coasting trade.

- No waivers granted if suitable Canadian vessel available.

- Waivers do not add to cost of operation, but 1 year Waiver terms and bumping potential add uncertainty and hence discourage investment.

PROPOSED BILL C-52 (1988)

- Died on order paper in 1988.
- Would have clarified the definition of coasting trade to specifically account for those round trip voyages through foreign or international waters which would not include a call at a foreign port (making a definition consistent with the Revenue Canada Customs Coasting Trade Regulations and replacing the Canada Shipping Act definition).
- Reconfirmed coasting trade of Canada restricted to all ships except those registered in Canada. Foreign flag ships only permitted if suitable Canadian ship not available and duties and taxes paid for temporary use in Canadian waters (length of waiver dependent on each case).
- Because of definition of coasting trade, possible application of CRC 1451 & 1452 officer certification, ship compliance inspection procedures and requirement for Canadian engineers to foreign flag vessels on BC/Alaskan route would increase operating costs and disrupt manning (also dubious international legality).
- Exemption from need to obtain a waiver originally allowed to foreign flag vessels with over 100 berths; but changed to 250 berths.

IMPLICATIONS

- Restricts small ship cruise development as licence needed for foreign flag vessels only granted so long as no suitable Canadian vessel available -- reducing security of access.
- Includes voyages outside Canadian waters under definition of coasting trade -- therefore more attraction to base foreign flag vessels in U.S. gateway ports.

REVISED BILL C-52 YET TO BE INTRODUCED

INTENDED CHANGES

- No longer allows waiver only for vessels of 250 overnight berths or more.
- Foreign flag vessels operating in Great Lakes will not be eligible for waiver of Canadian licensing and remission of duties if no suitable Canadian vessel available.
- Waivers will be available if foreign flag vessels operate on east or west coasts of Canada and if part of their voyage includes one foreign port of call.

VESSEL DUTY

- Vessels imported into Canada for coasting trade are subject to vessel duty; if in international trade they are not being imported so are free of duty.
- International is defined for duty purposes as beginning or ending a voyage outside Canada, including round trips with foreign stopovers. Coasting is defined to be between two Canadian ports (even if a foreign stopover is included). Therefore, if the movement is primarily between Canadian ports -- directly or indirectly via a foreign port -- the vessel is dutiable.
- Duty is payable on transaction value of vessel imported into Canada (if no transaction, market value determined by two independent surveyors).
- Vessel duty is 20% for ships from the U.S. and 25% for those from other nations.
- Temporarily imported ships may apply for partial remission, paying 1/120th of value per month (remission granted for up to 12 months at a time, for a maximum of 36 months) for each month in Canadian waters.
- Rate of partial remission duty is calculated as 1/120 x capital cost x rate of duty x number of months.

IMPLICATIONS

- Duty on a foreign flag vessel cruising in Canada would not be required if based from a U.S. gateway port.
- Designed to encourage Canadian ship building but Canadian vessels have not been successful to date, so growth of cruise industry may be restricted.
- Some operators feel need for standard method of estimating vessel value.
- Although exemptions from duty now are available to vessels with 250 berths or more, those under 250 berths are not exempt but, may qualify for partial remission (1/120th) if no suitable Canadian vessel available.

SHIP STORES DUTY

- Applies only when vessel considered to be in coasting trade by Revenue Canada.
- Supplies used in operation of ship exempt from duties, sales taxes and excise taxes when vessel engaged in international trade (including voyages between Canadian ports if via foreign ports or waters). If exempt, supplies sold at duty free rates.
- Duty applies equally to both foreign and Canadian flag.
- Some operators feel no real enforcement of stores duty so no cost difference.

JOB RESERVATION (IMMIGRATION ACT AND REGULATIONS)

- Reserves all jobs in Canada for permanent residents and citizens of Canada except for members of the crew of a vehicle of foreign ownership or registry engaged predominantly in international transportation.

- Because of low wages, unattractive employment conditions and the threat of shifting cruise operations out of Canadian ports, CEIC has enforced job reservation only rarely -- floating hotels or itineraries with very little international component.

- Foreign flag vessels cruising only in BC waters would be required to make positions on board available to Canadian residents at Canadian wage rates, increasing manning costs.

IMPLICATIONS

- Canadian flag vessels operating in Canadian waters required to operate with wholly Canadian officers and crew (union or non-union), 2-3 times foreign crew costs.

- Foreign flag vessels cruising only in Canada required to hire Canadians on union or non-union scales, not so low as to dissuade Canadians.

- Foreign flag vessels from Canadian Gateway port and with some international water in cruise may operate with foreign crew (but depends on interpretation of CEIC which has tried to encourage the industry and interprets international service in light of how many jobs generated, how long service would operate and the supply of Canadian workers available).

- Foreign flag vessels from US gateway port cruising Canadian waters are unrestricted by job reservation and can operate with a foreign crew.

CRC 1451 NON-CANADIAN SHIPS SAFETY ORDER
CRC 1452 NON-CANADIAN SHIPS COMPLIANCE CERTIFICATE REGULATIONS

EXISTING

- Foreign flag vessels operating wholly in Canada must meet officer certification and ship compliance inspection procedures applied to Canadian flag vessels.
- CRC 1451 requires foreign flag vessels operating wholly in Canada to carry Canadian engineers.
- For foreign flag vessels operating from US gateway ports into Canadian waters, Canadian Coast Guard only spot checks valid International Certificates (no cost to operators) but US Coast Guard treats vessels as they would be treated in Canada with a Canadian gateway port.
- Some disagreement among operators and government about actual practices. Some operators claim regulations not enforced unless vessels lack certificates and under manned. Also disagreement which more strict in regulations -- Canada or U.S.

IMPLICATIONS

- Difficult for foreign flag (non-Canadian/US) vessel to operate from US or Canadian gateway port as costs for manning & ship upgrading to safety standards too high.
    - fire proof construction
    - watertight integrity (sea worthiness)
    - increased crew costs to meet manning levels
- Some operators disagree but cannot avoid enforcement as safety is a critical issue.

PILOTAGE

- Pacific Pilotage Authority employs or contracts pilots for vessels.
- All vessels over 350 gross tons operating in BC subject to compulsory pilotage except when reasonable safety can be insured.
- Tonnage calculation uses the flag nation's method. 350 GRT would include most vessels with over 100 berths.
- Canadian flag vessels under 10,000 GRT cruising only in BC waters are exempt from pilotage if a suitably qualified and experienced Canadian deck watch officer controls the bridge, saving perhaps $150K - $300 per season.
- No flag restrictions on exemptions. Any flag vessel may qualify in theory but in practise only deck officers engaged in full time Canadian coastal trade are permitted to substitute for PPA pilots.
- Foreign flag vessels under 350 GRT are exempt from pilotage.

IMPLICATIONS

- Some operators report that pilotage fees are not a concern and that suitably qualified Canadian deck watch officers are in short supply so effectively PPA pilots are required for foreign flag vessel, adding $150K - $300K to a season's operating costs (or $7K - $16K per week).
- High pilotage costs per passenger berth discriminates against smaller vessels but any change would require subsidization by larger vessels or renegotiation of pilot contract.

FUEL TAXATION

- Pretax fuel oil prices in Canada roughly 115-125% of U.S. prices.
- B.C. provincial taxes on marine diesel oil is 2.81 cents per litre ad valorem and on bunker fuel oil is 7% of purchase price (bunker fuel oil not likely to be used in smaller vessels).
- Fuel to ocean going vessels exempt from federal sales tax but still unknown how the proposed GST will affect this.
- Fuel imported for coasting trade would also be subject to duty (but exempt if for international voyages).
- Washington imposes no state taxes on fuel to foreign flag vessels.

IMPLICATIONS

- Relative cost of fuel favours US gateway port.
- Provincial taxes are part of cost which would favour US gateway ports.

ANNEX B

OPERATING SCENARIOS

Version 2.1: 100 BERTH/$350 U.S. PER DAY

SCENARIO	1	2	3	4	5
FLAG REGISTRY:	CDN	CDN	FOR	FOR	FOR
GATEWAY PORT:	CDN	CDN	CDN	CDN	US
WATERS CRUISED:	CDN	BOTH	CDN	BOTH	BOTH
VESSEL SIZE (BERTHS):	100	100	100	100	100
REVENUE	$4,168,000	$4,168,000	$4,168,000	$4,168,000	$4,168,000
VESSEL OPERATING EXPENSES					
Vessel Salary & Wages	$521,000	$521,000	$521,000	$167,000	$167,000
Other Operating Costs	$1,250,000	$1,209,000	$1,250,000	$1,209,000	$1,167,000
TOTAL VESSEL OPERATING COST	$1,771,000	$1,730,000	$1,771,000	$1,376,000	$1,334,000
GROSS OPERATING MARGIN	$2,397,000	$2,438,000	$2,397,000	$2,792,000	$2,834,000
GENERAL & ADMINISTRATION					
Onshore Overhead	$625,000	$625,000	$500,000	$500,000	$500,000
Marketing	$417,000	$417,000	$417,000	$417,000	$417,000
Commissions	$625,000	$625,000	$625,000	$625,000	$625,000
TOTAL	$1,667,000	$1,667,000	$1,542,000	$1,542,000	$1,542,000
NET INCOME BEFORE DEPRECIATION	$730,000	$771,000	$855,000	$1,250,000	$1,292,000
Depreciation	$417,000	$417,000	$417,000	$417,000	$417,000
NET INCOME BEFORE INTEREST & TAXES	$313,000	$354,000	$438,000	$833,000	$875,000

ASSUMPTIONS	Load Factor	Cruise Days	Passenger Days
JAN	0	0	0
FEB	0	0	0
MAR	0	0	0
APRIL	0	0	0
MAY	0.7	14	980
JUNE	0.8	28	2240
JUL	0.9	29	2610
AUG	0.95	29	2755
SEP	0.8	28	2240
OCT	0	0	0
NOV	0	0	0
DEC	0	0	0
TOTAL PASSENGER DAYS			10825
PRICE PER DAY			$350
PASSENGER REVENUES			$3,789,000
OTHER REVENUES	10%		$379,000
TOTAL REVENUES			$4,168,000

FINANCIAL RATIOS

PERCENT OF REVENUE					
Vessel Salary & Wages	13%	13%	13%	4%	4%
Other Operating Costs	30%	29%	30%	29%	28%
Onshore Overhead	15%	15%	12%	12%	12%
Marketing	10%	10%	10%	10%	10%
Commissions	15%	15%	15%	15%	15%
Depreciation	10%	10%	10%	10%	10%

Version 2.2: 100 BERTH/$220 U.S. PER DAY

SCENARIO	1	2	3	4	5
FLAG REGISTRY:	CDN	CDN	FOR	FOR	FOR
GATEWAY PORT:	CDN	CDN	CDN	CDN	US
WATERS CRUISED:	CDN	BOTH	CDN	BOTH	BOTH
VESSEL SIZE (BERTHS):	100	100	100	100	100
REVENUE	$2,620,000	$2,620,000	$2,620,000	$2,620,000	$2,620,000
VESSEL OPERATING EXPENSES					
Vessel Salary & Wages	$262,000	$262,000	$262,000	$78,600	$78,600
Other Operating Costs	$786,000	$759,800	$786,000	$759,800	$733,600
TOTAL VESSEL OPERATING COST	$1,048,000	$1,022,000	$1,048,000	$838,000	$812,000
OPERATING GROSS MARGIN	$1,572,000	$1,598,000	$1,572,000	$1,782,000	$1,808,000
GENERAL & ADMINISTRATION					
Onshore Overhead	$393,000	$393,000	$314,000	$314,000	$314,000
Marketing	$262,000	$262,000	$262,000	$262,000	$262,000
Commissions	$393,000	$393,000	$393,000	$393,000	$393,000
TOTAL	$1,048,000	$1,048,000	$969,000	$969,000	$969,000
NET INCOME BEFORE DEPRECIATION	$524,000	$550,000	$603,000	$813,000	$839,000
Depreciation	$262,000	$262,000	$262,000	$262,000	$262,000
NET INCOME BEFORE INTEREST & TAXES	$262,000	$288,000	$341,000	$551,000	$577,000

ASSUMPTIONS	Load Factor	Cruise Days	Passenger Days
JAN	0	0	0
FEB	0	0	0
MAR	0	0	0
APRIL	0	0	0
MAY	0.7	14	980
JUNE	0.8	28	2240
JUL	0.9	29	2610
AUG	0.95	29	2755
SEP	0.8	28	2240
OCT	0	0	0
NOV	0	0	0
DEC	0	0	0
TOTAL PASSENGER DAYS			10825
PRICE PER DAY			$220
PASSENGER REVENUES			$2,381,500
OTHER REVENUES	10%		$238,150
TOTAL REVENUES			$2,619,650

FINANCIAL RATIOS

PERCENT OF REVENUE					
Vessel Salary & Wages	10%	10%	10%	3%	3%
Other Operating Costs	30%	29%	30%	29%	28%
Onshore Overhead	15%	15%	12%	12%	12%
Marketing	10%	10%	10%	10%	10%
Commissions	15%	15%	15%	15%	15%
Depreciation	10%	10%	10%	10%	10%

Version 2.3: 250 BERTH/$350 U.S. PER DAY

SCENARIO	1	2	3	4	5
FLAG REGISTRY:	CDN	CDN	FOR	FOR	FOR
GATEWAY PORT:	CDN	CDN	CDN	CDN	US
WATERS CRUISED:	CDN	BOTH	CDN	BOTH	BOTH
VESSEL SIZE (BERTHS):	250	250	250	250	250
REVENUE	$10,419,000	$10,419,000	$10,419,000	$10,419,000	$10,419,000
VESSEL OPERATING EXPENSES					
Vessel Salary & Wages	$834,000	$834,000	$834,000	$313,000	$313,000
Other Operating Costs	$3,126,000	$3,022,000	$3,126,000	$3,022,000	$2,917,000
TOTAL VESSEL OPERATING COST	$3,960,000	$3,856,000	$3,960,000	$3,335,000	$3,230,000
OPERATING GROSS MARGIN	$6,459,000	$6,563,000	$6,459,000	$7,084,000	$7,189,000
GENERAL & ADMINISTRATION					
Onshore Overhead	$729,000	$729,000	$729,000	$729,000	$729,000
Marketing	$1,042,000	$1,042,000	$1,042,000	$1,042,000	$1,042,000
Commissions	$1,563,000	$1,563,000	$1,563,000	$1,563,000	$1,563,000
TOTAL	$3,334,000	$3,334,000	$3,334,000	$3,334,000	$3,334,000
NET INCOME BEFORE DEPRECIATION	$3,125,000	$3,229,000	$3,125,000	$3,750,000	$3,855,000
Depreciation	$1,042,000	$1,042,000	$1,042,000	$1,042,000	$1,042,000
NET INCOME BEFORE INTEREST & TAXES	$2,083,000	$2,187,000	$2,083,000	$2,708,000	$2,813,000

ASSUMPTIONS	Load Factor	Cruise Days	Passenger Days
JAN	0	0	0
MAR	0	0	0
APRIL	0	0	0
MAY	0.7	14	2450
JUNE	0.8	28	5600
JUL	0.9	29	6525
AUG	0.95	29	6887.5
SEP	0.8	28	5600
OCT	0	0	0
NOV	0	0	0
DEC	0	0	0
TOTAL PASSENGER DAYS			27062.5
PRICE PER DAY			$350
PASSENGER REVENUES			$9,471,875
OTHER REVENU	10%		$947,188
TOTAL REVENUES			$10,419,063

FINANCIAL RATIOS

PERCENT OF REVENUE					
Vessel Salary & Wages	8%	8%	8%	3%	3%
Other Operating Costs	30%	29%	30%	29%	28%
OPERATING GROSS MARGIN					
Onshore Overhead	7%	7%	7%	7%	7%
Marketing	10%	10%	10%	10%	10%
Commissions	15%	15%	15%	15%	15%
Depreciation	10%	10%	10%	10%	10%

Version 2.4: 250 BERTH/$220 U.S. PER DAY

SCENARIO	1	2	3	4	5
FLAG REGISTRY:	CDN	CDN	FOR	FOR	FOR
GATEWAY PORT:	CDN	CDN	CDN	CDN	US
WATERS CRUISED:	CDN	BOTH	CDN	BOTH	BOTH
VESSEL SIZE (BERTHS):	250	250	250	250	250
REVENUE	$6,549,000	$6,549,000	$6,549,000	$6,549,000	$6,549,000
VESSEL OPERATING EXPENSES					
Vessel Salary & Wages	$393,000	$393,000	$393,000	$131,000	$131,000
Other Operating Costs	$1,965,000	$1,899,000	$1,965,000	$1,899,000	$1,834,000
TOTAL VESSEL OPERATING COST	$2,358,000	$2,292,000	$2,358,000	$2,030,000	$1,965,000
OPERATING GROSS MARGIN	$4,191,000	$4,257,000	$4,191,000	$4,519,000	$4,584,000
GENERAL & ADMINISTRATION					
Onshore Overhead	$458,000	$458,000	$458,000	$458,000	$458,000
Marketing	$655,000	$655,000	$655,000	$655,000	$655,000
Commissions	$982,000	$982,000	$982,000	$982,000	$982,000
TOTAL	$2,095,000	$2,095,000	$2,095,000	$2,095,000	$2,095,000
NET INCOME BEFORE DEPRECIATION	$2,096,000	$2,162,000	$2,096,000	$2,424,000	$2,489,000
Depreciation	$655,000	$655,000	$655,000	$655,000	$655,000
NET INCOME BEFORE INTEREST & TAXES	$1,441,000	$1,507,000	$1,441,000	$1,769,000	$1,834,000

ASSUMPTIONS	Load Factor	Cruise Days	Passenger Days
JAN	0	0	0
FEB	0	0	0
MAR	0	0	0
APRIL	0	0	0
MAY	0.7	14	2450
JUNE	0.8	28	5600
JUL	0.9	29	6525
AUG	0.95	29	6887.5
SEP	0.8	28	5600
OCT	0	0	0
NOV	0	0	0
DEC	0	0	0
TOTAL PASSENGER DAYS			27062.5
PRICE PER DAY			$220
PASSENGER REVENUES			$5,953,750
OTHER REVENUES	10%		$595,375
TOTAL REVENUES			$6,549,125

FINANCIAL RATIOS

PERCENT OF REVENUE					
Vessel Salary & Wages	6%	6%	6%	2%	2%
Other Operating Costs	30%	29%	30%	29%	28%
Onshore Overhead	7%	7%	7%	7%	7%
Marketing	10%	10%	10%	10%	10%
Commissions	15%	15%	15%	15%	15%
Depreciation	10%	10%	10%	10%	10%

ANNEX C

ECONOMIC IMPACT METHODOLOGY

ANNEX C

ECONOMIC IMPACT METHODOLOGY

In this Annex we outline the methodology and assumptions supporting the economic impact estimates of Section 7.0

The starting point was to estimate the shares of ship expenditures originating in Canada under the various scenarios. The assumptions are given in Exhibit C.1. They reflect discussions with industry and judgement.

Local expenditures in an illustrative coastal community serving are a port of call as displayed in Exhibit C.2

A disaggregated approach was used to estimate total impacts. For each scenario, direct cruise ship impacts can be determined from Exhibit 7.1. We estimated a consumption multiplier to be applied to direct wages from Statistics Canada inter-provincial input output model. We estimated multipliers to be applied to offship puchases of goods and services by using a multiplier for general tourist spending originating in British Columbia. The impact from ship expenditures then was the sum of these two items plus the direct impact.

The tourism multipliers noted above were applied to off-ship expenditures. The sum of impacts from ship expenditures plus off-ship expenditures is the total impact.

For local community area impacts, we estimated multipliers based on our judgement and experience for a small community of under 25,000 people. An analagous procedure to that for Canadian impacts was applied. We assumed that no ship crew members were local residents. We also assumed an annual average wage rate of $20,000 per person-year of employment (including payroll burden).

To illustrate the approach, we detail the calculations for scenario 1.

Step 1: From Exhibit C.1 calculate direct impacts of cruise ship operations

- $6,010,000 in GDP,
- $6,010,000 in wages and salaries, and
- 250 person-years of employment

Step 2: Calculate the induced effects from respending of crew wages (we assumed 70% of Canadian crew wages were respent)

- $6,010,000 X .70 X economic multiplier

Step 3: Calculate the impacts from the $26,930,000 in non-wage ship expenditures in Canada
- $26,930,000 X tourism economic multiplier

Step 4: Add results from Steps 1,2 and 3 above to get total ship expenditure impacts.

Step 5: Calculate the impacts from the $1,970,000 in other Canadian expenditures
- $1,975,000 X tourism economic multiplier

Step 6: Add the results from Steps 4 and 5 to get total impacts.

The multipliers used are normal multipliers (impact per $ expenditure) rather than ratio multipliers (total impacts divided by direct impacts). The various multipliers used for each impact indicator -- GDP, wages and salaries and employment -- for Canada and the local community are presented in Exhibit C.3.

EXHIBIT C.1: CANADIAN SOURCING OF SHIP AND OFF-SHIP EXPENDITURES

	Canadian Expenditures				
	1	2	3	4	5
Ship Expenditures ($000)					
Wages & Salaries [b]	6,010	6,010	6,010	0	0
Other Operating [c]	18,380	17,770	18,380	17,770	12,870
Overhead [d]	6,250	6,250	0	0	0
Marketing [e]	920	920	920	920	920
Commissions [e]	1,380	1,380	1,380	1,380	1,380
Subtotal	32,940	32,330	26,690	20,070	15,170
Other Expenditures					
Tours [f]	430	320	430	320	320
Other Passenger [g]	1,540	1,160	1,540	1,160	1,160
Foreign Crew [h]	0	0	0	180	180
Subtotal	1,970	1,480	1,970	1,660	1,660

[a] All expenditures are expressed in 1990 Canadian dollars. Scenarios represent $350 US per day passenger charges, a 0.85 Canadian dollar, 5-100 berth vessels and 3-250 berth vessels.

[b] 100% Canadian crew for scenario 1,2,3; foreign crew for others.

[c] 100% Canadian expenditures for scenario 1,2,3,4; 75% Canadian expenditures for scenario 5.

[d] 100% Canadian expenditures for scenarios 1,2; zero for others.

[e] 15% Canadian expenditures for all scenarios.

[f] $20 per tour and 1.1 tours per passenger (15% take 3 tours, 15% take 2 tours, 35% take 1 tour); 75% of tours in Canada for scenarios involving cruising in both Canada and US.

[g] $80 spending per passenger (80% of passengers buy souvenirs etc and, of those who do, average spending is $100); for scenarios involving cruising in both Canada and US, 75% of off-ship expenditures in Canada

[h] 10% of foreign wages earned spent in Canada

EXHIBIT C.2 LOCAL COMMUNITY SOURCING OF SHIP AND OFFSHIP EXPENDITURES

	Local Expenditures				
	1	2	3	4	5
Ship Expenditures ($000)	60[a]	40	60[a]	40	40
Other Expenditures					
Tours	40[b]	30	40[b]	30	30
Other Passenger	130[b]	100	130[b]	100	100
Crew	20[b]	20[b]	20[b]	20	20
Subtotal	200	150	200	150	150
Total Expenditures	260	190	260	190	190

[a] $10 per passenger ($6 for provisions and $4 for berthage, passenger fees etc) applied to 1/3 of the 19,300 passengers; 75% of above for scenarios involving cruising in both US and Canadian waters since frequency of landing at a particular port is less.

[b] 1/12 of total revenue (we assumed 12 potential ports of call); 75% of this for scenarios 2,4,5.

EXHIBIT C.3: CANADA AND LOCAL AREA MULTIPLIERS

	Canada Multiplier		
	GDP or Income[a]	Wages & Salaries[b]	Employment[c]
Direct Ship Wages Respent[d]	1.00	.66	2.2
Other Expenditures	1.50	1.00	3.4

	Local Area Multiplier		
	GDP or Income[a]	Wages & Salaries[b]	Employment[c]
Total Expenditures	.50	.36	1.8

[a] GDP per $ expenditure

[b] Wages and salaries per $ expenditure

[c] Person-years employment per $100,000 expenditure

[d] To be applied to the 70% of direct wages respent (the rest goes to taxes, savings, and out-of-country expenditures).

[e] Assumed $20,000 per person-year.